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Strategic Planning for Family Business in the Kingdom of Saudi Arabia

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"Strategic Planning for Family Business in the Kingdom of Saudi Arabia"

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Abstract

In this dissertation, the strategic planning process in a family owned firm of Saudi Arabia will be discussed. The main aim is to develop a comprehensive model of strategic planning, specific and customized to the family businesses of Saudi Arabia. The model will encompass all the factors that are unique to the Saudi Arabian family businesses, such as the family culture of Saudi business families, the interfamily dynamics that shape the strategic approach of the family and the unique market conditions or the external environment that influences the strategic planning process of family owned firms in Saudi Arabia.

The literature review extensively covers the topic of strategic planning, family business dynamics and major salient features of family business described by various authors. The literature review also discusses the models of family business that define the interaction of various elements in family owned firms, their drawbacks and the gaps in applicability of these documented models to family businesses in general and specifically to Saudi Arabian family businesses. The literature review reveals that there is no comprehensive model of strategic planning process for the family owned firms that highlight all the critical factors that shape the strategic planning process and also document successful firms that have benefited from these models.

Based on an extensive survey of the family owned firms of Saudi Arabia and statistical analysis of various unique features of such firms, the most critical factors that play a major role in strategy formulation could be isolated. These critical factors helped in designing the strategic planning model for the family owned firms of Saudi Arabia. The model was practically implemented and validated in 10 family businesses of the kingdom and results confirm the applicability of this model. The model formulation and validation in the family firms of Saudi Arabia, forms the main focus of this dissertation.

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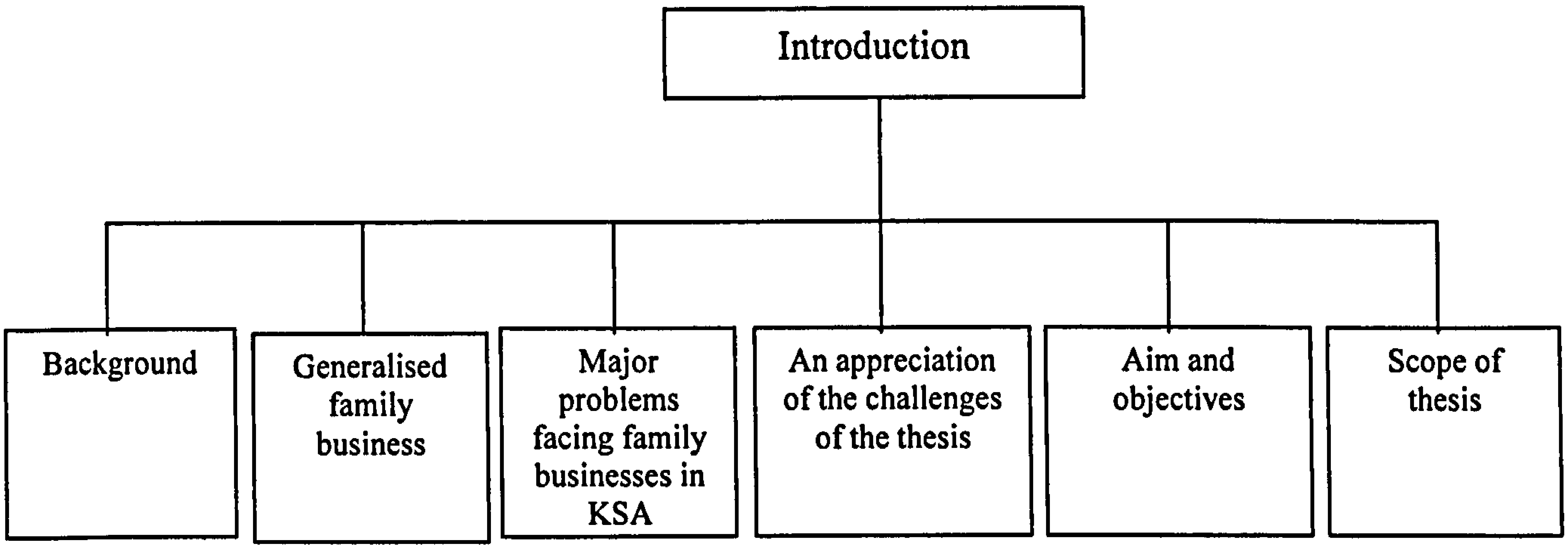
List of Abbreviations

DCF	: Discounted Cash Flow
DZIT	: Department of ZAKAT and Income Tax
EPS	: Earning per share
FCIC	: Foreign Capital Investment Committee
FDI	: Foreign Direct Investment
GATS	: General Agreement of Trading Services
GCC	: Gulf cooperation Council
GDP	: Gross Domestic Product
GNP	: Gross National Product
HAJJ	: Pilgrimage Season
IEA	: International Energy Agency
ISO	: International Standard Organization
LLC	: Limited Liability Company
LLP	: Limited Liability Partnership
MBO	: Management by Objectives
MNC	: Multinational Company
MOP	: Ministry of Planning.
OPEC	: Organization of Petroleum Exporting Countries.
SABIC	: Saudi Arabian Basic Industries Company.
SAGIA	: Saudi Arabian General Investment Authority
SAMA	: Saudi Arabian Monetary Agency.
SAMBA	: Saudi Arabian monetary Business agency
SBU	: Strategic Business Unit
SEC	: Saudi Electric Company
SIDF	: Saudi Industrial Development Fund
STC	: Saudi Telecommunication Company
SWOT	: Strength, Weakness, Opportunities and Threats.
WTO	: World Trade Organization

CHAPTER

1 INTRODUCTION



1.1 Introduction

This thesis is about the design, development and validation of a model for strategic planning for family businesses in the Kingdom of Saudi Arabia. The model is based on the critical factors that shape strategic planning in family owned businesses in the Kingdom. The model incorporates key salient features such as the cultural aspects of Saudi family system, the mode of venture capital generation in the family business, based on the Islamic principles and the wealth distribution as per Islamic law. These features differentiate Saudi family businesses from other family owned businesses in the western World. The incorporation of these factors makes the proposed strategic planning model for family businesses unique when compared with models documented in the literature.

Available models do not have an in-depth insight into the personal factors of the individual stakeholders of the family such as those in Saudi Arabia. The model developed has been successfully validated in five family owned businesses in the Kingdom. Post model-implementation results have indicated a better competitively placed family business with an improved integration and cohesion among the family stakeholders and a better performance.

A family business is a unique organisation that integrates a business system with a fundamentally different family system. The business system is organised to achieve specific goals, driven by tasks and characterised by competitiveness. A family system on the other hand, is bound and motivated largely by traditional responsibilities and loyalties and is characterised by unity. Meshing one system with another inevitably means that many of the family biases, quirks and internal relationships; will influence upon the business operating style, decision-making and future prospects. Both the business and family are unpredictable organisations. People in families – parents, children, brothers and sisters usually relate to one another in ways that are not necessarily best for people in business to relate to one another. Similarly, in a business setting, supervisors, subordinates and the CEO routinely make demands on one another that would normally tear families apart. Family involvement adds several layers of complexity to a business. In a family business, one has to manage two different types of relationship with the same person.

Healthy family business relationship begins with a structure to organise the family to keep in touch with what each member wants, what the family stands for and what the family wants from the business. A successful family business can only be created if there is an alignment of thoughts, values and goals between the family and business. Without knowing the family, it is impossible to really understand its business. Anything, which does not make sense from a business point of view, begins to take a meaning when the family needs and style are known. Every family business mimics the style of the family that creates it. Lying behind the business in its shadow are the relationships and need of a family. Indeed, many of the frustrations, conflicts, difficulties, misunderstandings and confusion in a family business have their roots in the ways of a family. Because of this basic fact, before strengthening the business, there is a need to examine the family behind it. The family contains the spirit, the energy and the commitment that leads to the creation of business and it may also contain the deep-rooted dynamics that can overtime undermine the business.

1.2 Background

In the past two decades, the combination of a strong global economy, new technologies, increasing market opportunities and the participation of a new generation of family members has contributed to the increased vitality of family businesses. Family businesses are becoming more sophisticated, not only about management but also more specifically about family business management.

Family business planning involves more than just a thoughtful review of business challenges and opportunities and the family's exploration of its expectations and talents. It is a way of learning and thinking about the possibilities for both the family and business systems. Over the past 30 years, academics, consultants and researchers have developed valuable insight into what planning actually involves and the ways in which it leads to business success. Planning for business growth while transferring ownership and management across generations presents many challenges in today's complex business environment. Family businesses must cope with endless industry related and organisational decisions while simultaneously planning for the management and ownership transitions driven by individual and family life cycles.

1.3 Generalised family business

The majority of well-know firms in the world have the family as the founding unit. The family entity of the business not only provides the financial seed but also the emotional support for the business.

A family business owner's greatest resource is his family. Family members provide the company with employees, ideas, new blood and capital. They give the owner good reasons to work hard and achieve success. They are the reason for making the business last.

The very nature of business often seems to contradict the nature of the family. Families tend to be emotional, whereas businesses are more objective. Families are protective of their members and often grant acceptance unconditionally, whereas in businesses, acceptance is granted based on individual contribution. These and other conflicts of interest can generate a good deal of ambiguity and stress for family members. This in turn can cause problems that may significantly affect the business **[Hollander, 1983]**.

Building a business is a long-term investment for a family. Whether conscious about it or not, the family sees the business as the most important form of family expression and as a bank for the family future. The business is founded in sweat equity, the value derived from many years of family members working for usually lower than market return. The family business is run for the future of the next generation, not just yearly profits.

The essence of strategic business planning is to examine and analyse the principal component of the business and to develop a plan that reflects achievable goals. The result is the integration of all parts of the organisation operating system, structure, strategy, capital, marketing, boardroom and employee resources into a coherent and manageable whole with everyone pulling in the same direction.

1.4 Major problems facing family businesses in the Kingdom of Saudi Arabia and the Gulf Countries

The Third Arab Family Business conference in Kuwait [1997] revealed a number of key points including:

1. The death of the named owner of a family business can result in disputes and conflicts, and sometimes into separation or liquidation of the business.
2. Mixing-up business financial obligations with the family and personal obligations, which would affect the performance of the business.

3. Shortage in local and international market information leads to domestic and overseas expansion minimization.
4. A lot of financing organizations refrain from providing loans to some individual establishments unless on high valued guarantees.
5. Dominance of family members interests leads to ignorance of competence criteria for positions occupation in companies
6. Parental dominancy and incapability of youngest family members to oppose any decision due to fear of losing their jobs if they reject decision.
7. Heir ship problems and disagreement by heirs that leads to legal disputes, upon the decease of company organizer, on purpose to dominate on company and properties thereof, regardless company interest.
8. Managing company in the meantime – after development and growth – the same style and methods of management as at the time of establishment of the firm.
9. Indications of familial dispute about whom of the third generation will lead the Company as every partner wants his son to be that leader
10. Increment in number of particular family members in the course of time in addition to change in customs, traditions, ethics, characters and individual behaviour and conduct,.
11. Absence of relations among fourth generation, i.e. brother and cousin's generation and consequently absence of encouraging incentives required for company development and maintenance.
12. Interest in company continuation by some individuals of others' interest is confined to money only. Perhaps some are interested in selling their shares in the company while others have interest in expanding other business.
13. Succession transference of presidency or higher management positions to heirs who do not have the same characters of company organizer, may always create problems and difficulties in administrative menacing by separation or liquidation of company.
14. Conflict in interest between parents and sons sometimes may negatively affect administrative aspects.

15. Partner's incapability to deal in his shares, restricts investment areas.

1.4.1 Positive issues in family business in the Kingdom of Saudi Arabia and the Gulf Countries

The Third Arab Family Business conference in Kuwait [1997] revealed a number of key points including:

1. Profitability is not the sole objective of such company owners but also the social situation and acting to consolidate their influential position in market and community.
2. Reinforcement of family relations to have an impression of being related to the main mother family.
3. Transference of experience to progeny upon continuation of business in the same organizational activity area.
4. Availability of confidence between the general assembly and executive management.
5. Visibility of cultural identification in company performance and general conduct.
6. Reinforcement of relations between the company and community as familial company organizer mostly assigns apart of company ownership rights for charity and community welfare service.
7. Interest of management in developing the company by entering into long term projects of returnable benefit to future generations.
8. Availability of more freedom in dealing with administration and financial matters.
9. Confinement of returns and profits to family member and thus consolidate their financial position.
10. Availability of special incentive and facing the big challenge for the family.
11. Interest in social responsibility, which appears through continuous charity and welfare donation.

12. Focusing in the products quality due to association of these products with the family name.

1.4.2 Constraints facing most companies in the Gulf Countries

The Third Arab Family Business conference in Kuwait [1997] revealed a number of key points including:

1. Globalization
2. Affiliation of most GCC countries to the general Trade Agreement and International Tariff in particular, World Trade Organization (WTO)
3. Monopolistic situation based on particular trading agencies ownership.
4. Borders closure before similar services access even as international banking services.
5. Psychological factor, as most organizer families in GCC reject to refrain from old traditional method of work and deny development.
6. Disinterest in divulgence of company secrets even to accountants, auditors, financial advisors and legal consultants.
7. Discrepancy and contention among partners themselves on their heirs.

1.4.3 The impact of the new World Trade Organisaton agreement on Family Business

The Third Arab Family Business conference in Kuwait [1997] revealed that one of the major developments at local, national and international arenas, having a significant impact on family business in the Gulf Countries is the new World trading system on familial companies. The World Trade Organization Agreements may have positive or negative impacts as discussed in the next sections.

1.4.3.1 Positive aspects of the World Trade Organisation Agreement

Positive aspects of WTO include:

1. The agreement enables familial companies to import from the international market all their requirements at reasonable prices without any restrictions and any obligations to the registered agencies, as well as having a free trade international system which eliminates all customs and non-customs restrictions.
2. Utilization of exemption periods determined by the organization for growing countries to improve and promote their positions and products respectively.

1.4.3.2 Negative aspects of the World Trade Organisation Agreement

Negative aspects of WTO include:

1. The agreement obliges the member countries to reduce support on some products, food and agricultural exports. However, GCC countries import foodstuffs; therefore, they should have to pay for imports of such foodstuffs.
2. Reduction of support contributed to some industries pushed GCC family companies dealing in such industries to avail modern technology in order to reduce production costs.
3. The agreement affects in intellectual ownership rights particularly industries depending on patent add intellectual products like medicine and drug industries, the matter that leads to either increases in production costs or resorting to establishing research and training centres.
4. The agreement of the Organization permits and allows existence of foreign companies and this, as such, leads to competition between these lien firms and local GCC family group companies.
5. The development of economic consortiums of various configurations such as duty-free trade areas, common markets, economic unity and custom union.
6. Free flow of economic information among world countries in addition to the huge boom and rise in information field and communication means.
7. Expansion of capital flow among countries.

1.4.4 Recommended course of actions for resolving the negative aspects of the World Trade Organisation Agreement

The **Third Arab Family Business conference in Kuwait [1997]** revealed a number of key actions including:

1. Requirement for management separation from ownership.
2. Evaluation and accountability of management as well as appointing a superintendent within and out of the company for rights protection.
3. Amendment of work force structure in family group companies, attraction of human competence and experience in different specialties as well as development of management methods and applicable techniques and technologies.
4. Maintain a culture of community - this is deemed the first line of defence against globalization phenomenon or international free trade.
5. Organization of job opportunities for national workers and participation in solving unemployment problem.
6. Attraction of other capitals to expand business without losing dominance on decision and that case is either by agreement of other partners in some company projects or cooperation with particular parties for financing new operations and development projects.
7. Encouragement of gulf youth to take the initiative of establishing small and medium projects for brother to jointly work in as well as fathers and sons.
8. Family group companies' interest should not be confined to achieving profit only, therefore development should take place in all aspects particularly economic and social side.
9. Continuation of promotion by commercial chambers and securities markets, for the plan of developing and converting family group companies to a particular form or another, which is more appropriate.

10. Continuous review by securities market, for the minimum level of its requirements and provision of legal flexibility in taking decision that allow involvement of anonymous companies shares in the securities market.

11. Procedure simplification by the Ministry of Commerce to facilitate conversion process from family group companies to limited liability or joint stock companies.

1.4.5 Up growth of family group companies on the Gulf Countries

Economic growth phases and models in developing countries are historically based on their primary resources and whether they are agricultural or extractive products. GCC countries are still in the first stage of growth, i.e. Reliance on primary production (oil). The huge returns and overabundance of oil along with a small population in Arabian Gulf Countries, this stage does not yet deplete its energies and capabilities. However, there is recession in economic growth due to the downward inclination in oil prices for more the two decades. Consequently, under the protection of technological development relevant to the international economic mergence or globalization and information revolution. All these factors impose upon gulf countries a shift directly from the stage of primary oil production to development of none oil economic activities of capability to complete in the local and international markets. To reach this goal, achievement on intensive care is required to be given not only for economic policies but also for the entire economy.

Herein, the recent and future economic role of family group companies in the GCC member countries should be considered as well as the existence of social, economic and political organization at high level in the gulf countries based on the extended family, which represents the main economic unit of both production and consumption.

At the beginning, these companies have grown up through successful competition with market and establishment. As it was previously discussed, the Arabian Gulf economy is, in general moving on from its initial growth stage because of significant oil production, which resulted in huge returns and surplus in comparison with the size of national population. Therefore, economic and social organization depends on family as an essential unit of production and consumption Government and political system is based on family hierarchical structure in addition to that legislative sectors are based on familial and tribal loyalty. Under modern economic circumstances, shifting to a new stage of growth requires a new industrial organizational structure as this stage requires upgrading rates of non-oil economic growth and building up its impetus and inducement. We should come to know that the social and economic growth process is splitting up the extended family system. This is in addition to legislative rules and laws set by Islamic Sharia with regard to wealth and how it is distributed among heirs upon the death of the owner. Therefore, change to any other form or entity than family group companies is necessary. Out of these option are close, open or regional joint – stock companies, limited partnership or joint liability or limited liability companies.

1.4.6 Classification of companies in the Kingdom of Saudi Arabia

Companies in the Kingdom of Saudi Arabia are classified as follows:

1.4.6.1 Individual Companies

These include the following:

- Individual establishment i.e. related to one person abiding by all rights, with the business aborted upon the decease of the owner.
- Partnership companies: Two or more joined partners with provisions against debts incurred by the companies.
- Limited partnership: Two types of partners: Joint and Partnership Company.
- Limited Liability companies: Between two or more partners responsible for company debts reflecting their shares in the capital.

1.4.6.2 Association Companies

In their widespread shape, they are joint-stock companies in which the capital is divided into shares of equal value and susceptible in share market.

The number of new companies and establishments in the Kingdom that have been issued registration by the Ministry of Commerce in 2002, Reached 484 companies with total capital of Saudi Riyals 1630 Million distributed as follows:

- 4 joint – stock companies of capital Saudi Riyals 327 Million at a rate of 20 % of total new companies capital:
- 344 companies L.L.C. of capital Saudi Riyals 1,176 Million at a rate of 72 % of total companies capitals.

The total number of companies in the Kingdom up to end H are approximately 7216 Companies with capital amounting to Saudi Riyals 95,259 Million, out of which:

- 91 joint – stock companies at a rate of 52 % of total capitals.
- 4,178 limited liability companies at a rate of 42 % capital amounting to SR- 4441 Million.
- 815 limited partnership companies at a rate of 1.5 % capital amounting to SR 1,641 Million.

Individual establishments witnessed recession during the period 1997-1998 due to fall down in petrol prices at that time, the matter that had impact on government expenses which came down to 4.7% and consequently affect expansion of general project. In (1990-200) growth jumped from 4.7 % to - 12% due to the first Gulf War and wide expansion in expenditure by the government to meet war requirements. As a result, thereof, various new activities in different sectors had come to surface.

1.5 An appreciation of the challenges of the thesis

There are a number of models for the strategic planning process of family owned business in the literature. Most of them focus on the interaction of the forces or entities of a family owned business. The most notable among them are the "Family entity", "Business entity" and "Personal factors of the owner entity". Other models such as the "Two Circle" and "Three Circle" models suggested by **Tagiuri and Davis [1992]** describe the interaction of these entities in a family owned business. The literature has identified various factors that govern the dynamics of a family owned business. The literature models do not however suggest the timing of the strategic planning process in the family owned business. These models do not indicate the frequency and cycle of steps that should be followed in the strategic planning process of a family owned business. The literature available on the family business is focused more on the western and Far East Asian countries family owned businesses. There is little literature or no evidence of research, which takes into consideration the dynamics, functioning, and strategic planning process in Saudi Arabian family businesses. The majority of the businesses in the Kingdom are family-owned and the families have been involved in trade activities prior to the oil boom in the country. The unique feature of the family businesses of the Kingdom is the cultural heritage of the families and tribes, which has a high influence on the functioning of family businesses.

This research is an attempt to study the functioning of family businesses in Saudi Arabia and study the strategic planning process carried out in such firms. The study of family businesses is still relatively new. The scholarly work began with consultant case description of family firms. In the last few decades, researchers from management and organisational sciences have begun to apply models from organisational behaviour, strategy, human resource management and finance to smaller sized or privately owned companies. At the same time, some family therapist begun to apply concepts such as differentiation, enmeshment or disengagement and triangles to the subgroup of families who have business. The contributions of these scholars and practitioners as well as the work of sociologists, accountants, lawyers and historians have begun to coalesce models of family business.

The study of family business as system in the early days focused mainly on the typical problems that appeared to hinder family firms, such as nepotism, generation and sibling rivalry and unprofessional management. Current studies of family business firms are more focused on the dynamics, interrelationships, family constitution and councils and other forms of family forces that interact among the forces of family and between the family and business entity.

No model has described the strategic planning process of a family owned business in total, taking into account the external market forces and the unique framework of internal dynamics of a family owned business. In the current markets of rapid change, cross border strategic alliances and technological innovations binding organisations in real time transactions and information exchange, the family businesses are at a cross roads, trying to catch-up and survive with the change, and at the same time maintain the cultural heritage and value systems of the family.

Saudi Arabian businesses are in the process of a shift in the market environment, with the government moving from an oil-based economy, to an industrialised nation. Government subsidies have been reduced, private organisations are encouraged to participate in international trade through partners and the Kingdom laws have been de-regularised to attract more Foreign Direct Investment (FDI) in the Kingdom. Along with the rapid changes in the external market environment, there are changes in family structures too. Most family businesses established in the Kingdom belonged to the oil boom economy period of mid 1960's. The siblings of these family business owners have been groomed and trained to take over the business. The businesses are now in the process of shift from the first generation to second or third generation. The cultural values have also shifted a little and most of the families now are nuclear in structure compared to joint venture type about 30 years ago. These changes and the market conditions have forced the family business to re-align restructure and plan strategically for the future survival and growth. These factors have made imperative that the family business plan strategically for the business and the participation of families in the business with more commitment.

This research was carried out with the above-mentioned basic deficiencies, which a family business is currently facing in the Kingdom. The main aim of the research is to define a model of the strategic planning process, which not only considers the external market factors and internal family dynamic factors, but also considers the importance of culture, which is the main force that directs the behaviour of family members. Very few models have considered the importance of family culture, traditions and value systems in the functioning of a family owned business, while this is the most vital and critical factor that governs the individual and collective family participation in the business.

The study attempts to analyse critical factors of family business dynamics in Saudi Arabia and represents a genuine effort in developing an ideal strategic planning model for such firms in the Kingdom.

1.6 Aim of the thesis

The main aim of this research work is to develop a comprehensive model of strategic planning for the family business in Saudi Arabia.

1.7 Objectives of the thesis

The objectives of the thesis are the following:

1. Carry out an extensive literature review on all aspects related to the key elements of this project namely family business and strategic planning.
2. Study the relationship between the above-identified two elements through a thorough research to identify other researchers input in this subject and focus on critical issues not covered in their models, and finally identify the gaps for further research.
3. Identify and understand the Saudi Arabian major contribution factors that affect the family business in particular, this would cover the economy, finance, business structure and cultural issues.
4. Identify the composite factors that differentiate the family businesses of Saudi Arabia from similar family businesses in other major economies of the world.
5. Identify the contribution of family business to the economy of Saudi Arabia and critically analyze the external environmental factors in which the family businesses of Saudi Arabia operate.
6. Critically analyze and evaluate various models of strategic planning and operation of family businesses, documented in the literature. Their applicability to Saudi family businesses operations is also validated.
7. Gather primary data about the method of strategic plans formulation in Saudi Arabian family businesses.
8. Carry out a statistical analysis to identify salient features of Saudi family businesses, and the factors that are critical in the formulation of strategic plans in the family businesses of Saudi Arabia.
9. Develop a strategic planning model for family business in Saudi Arabia – a practical and systematic model.
10. Verify the above model by creating an assessment tool, and implement and test the result to achieve the stated objectives.

1.8 Scope of the thesis

In this thesis, a model for strategic planning for the family businesses has been developed, based on the critical factors that shape the strategy formulation in family owned businesses. The model incorporates the salient features such as the cultural aspects of Saudi family system, the mode of venture capital generation in the family business, based on Islamic principles and wealth distribution as per Islamic law. These features differentiate the Saudi family businesses from other family owned businesses of western world. The incorporation of these factors makes the proposed strategic planning model for family businesses in this thesis unique when compared with other models documented in the literature.

The model also has covered the deficiencies of other models discussed in the literature, of not having an in-depth insight into the personal factors of the individual stakeholders of the family owned business in Saudi Arabia. The model covers majority of the strategic planning aspects and has been successfully validated in about 10 family owned businesses in the kingdom. Post implementation results have been documented and indicate more competitively placed family owned firms, with better integration and cohesion among the family stakeholders and better overall performance. The above has been covered through eight chapters.

Chapter 1 covers the introduction with a general overview of family business and family business in the context of Saudi Arabia, plus an appreciation of the challenges of the thesis. Chapter 1 includes the aim and objectives of the thesis.

Chapters 2 and 3 deal with comprehensive literature reviews of family business and strategic planning respectively. Chapter 3 also explores the dynamic relationship existing between family business and strategic planning process.

Chapter 4 gives an overview of the Saudi dimension to the research and discusses the history, economy, business structure and the culture within the Kingdom.

Chapter 5 deals with the research methodology and discusses the empirical approach used in this thesis. A sample of well-known family business houses were identified through the chamber of commerce and were privately visited to capture the required data. It is worth mentioning that it is extremely difficult to get the data in such a closed society like Saudi Arabian society. Several statistical tools were used to analyse the data including analyses of central tendency and variation. The outcome of the empirical research was the identification of critical factors, which were used to develop the family business strategic planning model.

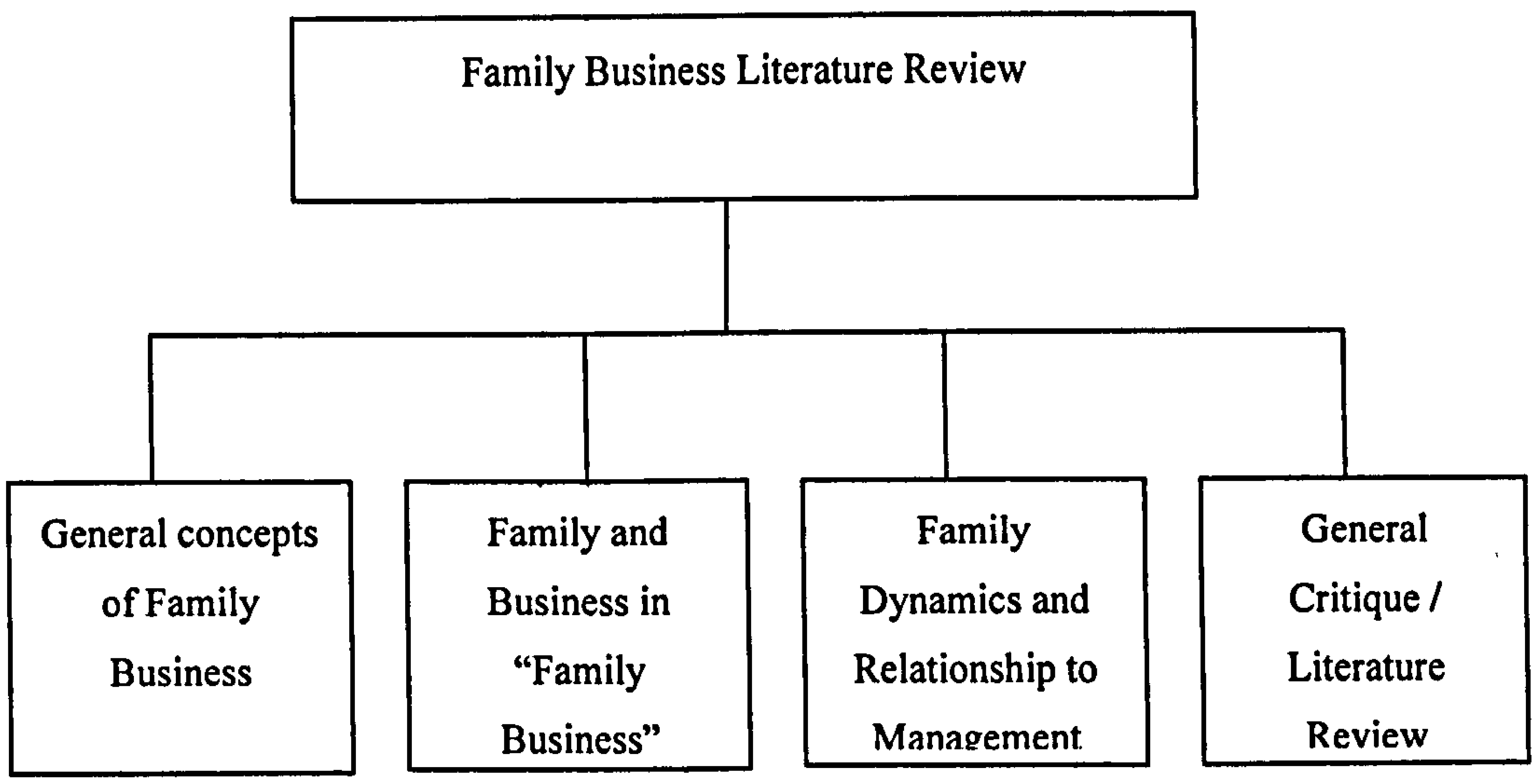
Chapter 6 presents the model is some detail and discusses its main components with regard to Family and Business. Chapter 6 also discusses how the validation of the model has been carried out involving five extensive case studies. The implementation was carried out done in two stages. In stage one, a current assessment of family business is completed using an assessment tool, and in stage two, recommendations for corrective actions are provided based on the findings.

Chapter 7 is focused on an extensive discussion on five case studies using a structured methodology.

Finally, in Chapter 8, the aim and the objectives are revisited, conclusions drawn and recommendations for further research provided.

Chapter

2 Family Business Literature Review



2.1 General concepts of family business

This section covers the definition of Family Business, the history of Family Business worldwide including Europe, U.S.A. and Asia countries, and finally, the Saudi Arabian understanding of the Family Business concept.

2.1.1 Family business definition

Family Business is a firm or a company in which the family has a strong influence in the day-to-day running of the business. This is a wider definition, which includes the sole proprietorships, or partnership, and public limited companies where the family controls can be largely informal rather than legal.

James [1991] defines family business either as that which is owned wholly or in the majority by one person or by members of one family. Its entrepreneur and founder employ a spouse or other relatives, it may be owned and operated by the founder's children, grandchildren, or other family members may head it. The family business may be organised as a proprietorship, a partnership or a closely held corporation, or it may be publicly traded, with one family owning enough stock to maintain a controlling interest. The distinguishing characteristic of family business is that one family own it, operates it and directs its management or exercises other forms of control.

Jaffe [1987] defines family business as any business where more than one member of a family takes on management or active ownership responsibility. The essence of family business is that, blood, work and business ownership are held in common.

Litz [1995] explains, "Business firms are considered a family business to the extent that their ownership and management are concentrated within a family unit and to the extent that its members strive to achieve and/or maintain inter-organisational family based relatedness".

Hayward [1989] defines family business as one in which any one of the following four criteria hold true:

1. A single family holds 50% or more of the ownership.

2. Multiple members of a number of families hold 50% or more of the ownership.
3. Single-family group effectively controlling the business.
4. Significant proportion of the senior management is drawn from the same family.

Chua, Sharma and Chrisman [1996] define family business as a business, which is governed or managed on a sustainable cross generation, and with a basis to shape and pursue the formal or implicit vision of the business held by members of the same family or a small number of families. This definition is important from the strategic management perspective because it implies that there are goals being pursued, a strategy designed to fulfil those goals and a mechanism in place to implement the strategy and control the firms progress towards the achievement of its goals.

The basic strategic management process for both the family and non-family firms is similar in the sense that a strategy whether implicit or explicit must be formulated, implemented and controlled in the context of a set of goals. In this sense, the performance is similar since it is measured with respect to achieving a set of goals. The differences are in the set of goals, the manner in which the process is carried out and the owner family is likely to influence every step of the process **[Harris, Martinez and Ward 1994]**. The strategic planning process in family owned and non-family owned business is similar except for the interest of the family or the people involved in it.

2.1.2 History of family business

Family businesses are the predominant form of enterprise all over the World. They are so much a part of every nation's economy and social systems and yet little research has been focused on their dynamics and effect a successful economy. Currently, most family business research is descriptive in nature rather than prescriptive. Most literature has taken a prescriptive approach has focused on how to improve family relationships rather than business performance. Whilst a better understanding of the family in a given family business is valid and useful, there are other goals that deserve attention.

Literature reviews on family business have made various guesses about the number of family controlled companies. Even the most conservative estimates put the proportion of all worldwide businesses that are owned or managed by families between 65% and

80%. It is true that most of these companies are small sole proprietorship, but it is also true that many of them are also the largest and most successful businesses in the world. It is estimated that 500 family owned firms own 40% of the world's wealth.

Family business is as old as a society. Ancient kingdoms were in fact family business, but family business history has received only moderate attention. Few historians have recorded its contribution to society, even though the first known piece of writing appeared more than 4000 years ago **[Edward 1958]**. This describes how bankers loaned money at interest. Since then many family businesses have been the innovative backbone of most economies providing products and services to the benefit of consumer.

Family business, flourished in almost all ancient cultures of the world. The Arabs, Babylonians, Egyptians, Jews, Greeks, Phoenicians, Romans and Indians. They even had a code of business conduct and quality of products. The King of Babylon drafted a code of 300 laws on a marble column, which is preserved at the Louvre Museum in Paris. It was largely due to small family business that civilisation was spread throughout the world. They transported such things as Babylonian astronomy and Greek philosophy, the Jewish calendar and Roman law.

In the centuries that followed, small family businesses were considered evil by the church, and retailers were branded as sinners because they did nothing to improve a product but charged a higher price. The church also spoke against the practice of charging interest on loans. Similarly, "Jia" - the Chinese family business holds the centre stage in some East Asian economies. There is no caste system and Jia's rise and fall because they are unable to institutionalise their position in society. **Wong [1992]** calls it a "seething cauldron", with families bubbling to the top only to burst and sink back to the bottom", in the space of two or three generations. There are few oligopolistic groupings and monopolistic ventures to prevent other individual enterprises from moving upwards. Wong stresses that it is not the economic inertia that is affecting the "Jia" but excessive competition.

In Korea, a few family-owned "Chaebols" (family business conglomerates) control the economy with the active support of the government and societal elite. Japan, on the other hand, has managed to separate ownership and business control to a much larger extent than have most other Asian societies. Yet even in Japan, a strong family identity continues to guide industrial enterprises. The social aspect of business in the prosperous East Asian economics has been dealt with in detail by **Fukuyama [1995].** He has contended that there are strong social trends that allow East Asian businesspersons to prosper, and that the Chinese and Koreans have been successful because of their ability to form commercial organisations, based on kinship. He feels that Japan's spectacular success is based on their ability to form non-kinship based networks.

Historically farms have been the traditional area of family owned firms. After the industrial revolution of the 18th century, economies of countries were governed by the power of heredity and vitality of family as an economic group. The popularity of family oriented enterprises in the 19th century was a product of a complex array of legal, economic and cultural forces. Many businesspersons preferred to be associated with their family connections rather than with outsiders. Since business activities heavily localised, the boundaries of the family firm with respect to finance, managers and labour were most of the community **[Dyer, 1986].**

In the early stages of industrialisation, a hazardous economic environment combining usually with imperfect formed institutions explains the predominance of family firms.

In the 20th century, the proliferation of small family business has been critical to the beginnings of industrialisation all over the world. Business historians have sometimes regarded the small family business as a force for conservation and backwardness **[Ambrose, 1983].**

Indeed, it was the rise of capitalism that made the family owned business possible. A basic capitalistic notion is the theory that not only individuals but society as well benefits when there are many firms competing with each other for the customer's money. Free enterprise means better products, lower prices and a sounder economic base than under other system **[Alcorn, 1982].**

2.1.3 Statistics of family-owned business worldwide

Family businesses are not just different from other business. There is more evidence that they are more effective. A study of the U.S. News and world report in 1986 found that out of the 47 largest family companies, 31 outperformed the D.J. index of the excellent companies cited by **Peter [1982].**

O'Toole [1984], an author of vanguard management explained, "If you start looking around at well-run companies that have been around for a long time, you often find they are the work of a single individual or family". Small businesses defined as firms with sales under US $ 100 million a year, play an important role in the U.S. economy. They carry 58% of all the American workers on their payrolls and they account for 43% of the GNP.

Approximately 98% of corporations in the U.S.A are not controlled by disembodied stockholders and managers and are not industry giants. Instead, they are privately owned and operated, and the majority of them are family owned businesses. In most developed economies anything from 6% to 15% of the working population are small businesses. It is estimated about 3.4 million people out of a working population of 27 million in U.K. are in the small business firms as shown in Tables 2.1 and 2.2. In Italy, 90% of all industrial firms are small businesses and absorb 84% of the total employment.

Table 2-1. Establishment enterprises and the shares of output and employment by Employment size class: UK manufacturing 1979-86

No.	No. enterprises	% of % share of establishments	enterprises	employment	Output
Size class 1-99					
1979	84,229	88,226	93.9	17.2	14.6
1983	81,474	85,753	94.8	22.0	18.0
1984	114,186	118,652	95.8	23.4	18.8
1986	125,503	129,65	96.4	24.0	19.3
Size class 100-499					
1979	4,152	6,804	4.6	12.9	11.6
1986	3.688	6,778	2.8	15.9	14.5
Size class 500-999					
1979	609	2,170	0.7	6.6	6.8
1986	508	1,787	0.4	7.4	7.2
Size class 1,000 +					
1979	751	9,876	0.8	63.0	67.0
1986	544	7,631	0.4	52.8	59.1

(Source: **ACOST [1990],** The Enterprise Challenge, Overcoming the Business to Growth in small firms London: HMSO)

Table 2-2. The percentage distribution of business units in the United Kingdom by turnover size, 1978-87

Turnover size Band. £ 000 [1985 prices] 1987	Number of business units % change in share		
	1978-79	1987	1978-87
0 < 20	10	15	+5
20 <100	50	52	+2
100<1,000	34	29	-5
1,000<2,000	3	3	-1
>2,000	3	3	-1
Total	100	100	0

(Source: **Hayghes [1990]** Industrial Concentration and the Small Business Sector in the UK: The 1980s in historical perspective, University of Cambridge Working Papers).

Another U.S. study found that small, young high technology business created new jobs at a much faster rate than older larger businesses **[US Department of Commerce, 1984].**

Recent studies in France have confirmed that small firms were net creators of jobs throughout the 1970s roughly absorbing the reduction in large firm employment.

The above shows that the overall contribution of the smaller firms has varied much less across time and hence across different stages of the economic cycle, than that of the large firms.

In addition, employment in small business is increasing. Total civilian employment in U.S.A exceeded 91 million in 1977 and small businesses contributed substantially to the rise. Employment in this area increased by 5.7% between 1974 and 1977. The number of small businesses during this period raised by 17% **[US Department of Commerce, 1984]**.

The presence of large business is felt more strongly in the manufacturing and service industries that require major capital investment. However, there are huge sectors of the American economy in which big businesses played minor role compared to small firms. An example is the retail trade that is the citadel of small business. For these reasons, Family business is abounding in the world of retail trade, gasoline stations, car dealership, hardware stores, building material, and jewellery stores etc. Selected service businesses are another area of family business.

Terry and Simon [1997] highlights the lessons from 500 of the world's best-unknown companies revealing that the most successful and little known low profile family firms are from Germany. Some of the companies cited make products that hold world's largest market share such as:

- Brita – 85% world market share in water filtration systems.
- Stihl – 30% world market share in chain saws.
- Tetra – 50% world market share in tropical fish foods.

Simon's study further revealed that such hidden champions are found almost in every industry and with very large market shares. The mean worth and relative market shares are 30.2% and 1.56% respectively. The latter represents the ratio of champion's market share to that of its nearest competitor. This indicates the average champion is 56% larger than its nearest competitor. Further 76.5% of the samples are closely held, usually translated as family held and only 2.4% are publicly held. The median age of these champion firms is 47 years; the oldest being founded in 1753 and almost 8% are 150 years old. **Astrachan [1998]** found that more than 90% of U.S. businesses are family businesses. These 20 million family businesses generate 49% of the U.S. GDP and employ about 59% of the U.S. workforce. While estate taxes on family business will affect more people than just family business owners, the impact on business owners alone is significant.

Family business pays US $ 100,000 annually in premium for life insurance on the lives of the business owners to provide cash to pay estate tax, at the owner's death. The impact of estate and gift taxes on family business is clearly shown in the Federal Estate Tax impact survey conducted by the centre for the study of taxation in 1995.

With estate and gift tax rates ranging from 37% to 55%, business owners are concerned about the impact of federal fax on their business. The centre of taxation asked business owners to rate the impact on scale of one to ten. 65% of the family business owners save the issue a rating of and, the average being 7.9% and more than 51% gave it a 9 or 10. When a business owners lack funds to pay estate taxes, quite often, part or all of the business is sold to non-family members. In 1993, a study by national life Vermont and the small Business Council of America found that 77% of failed family business that entered bankruptcy went bankrupt after the unexpected death of the founder. 80% of the family business owners have taken some steps to plan for estate taxes.

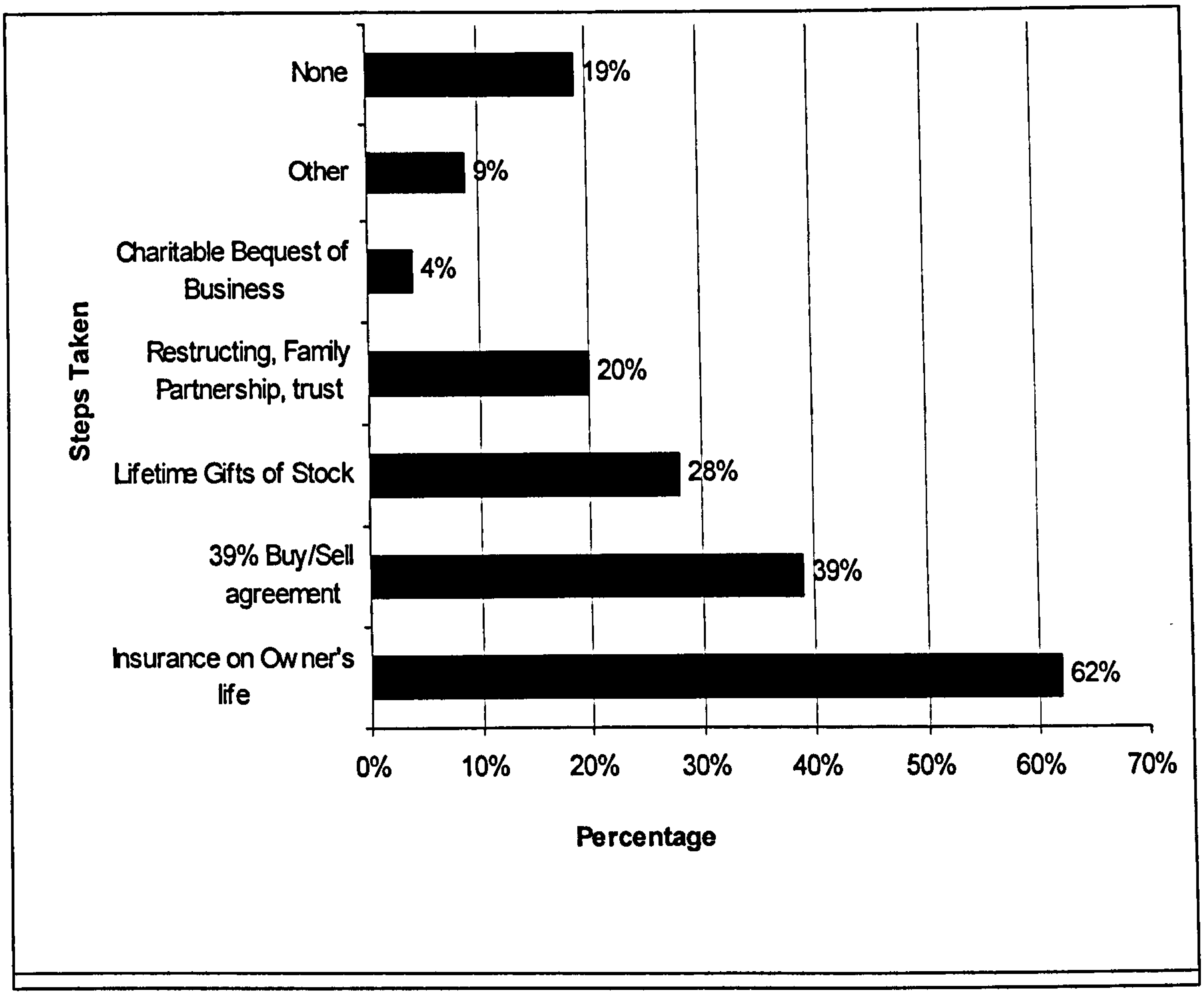
- Contribution to estate taxes.
- Distribution of estate taxes.
- Composition of estates.
- Steps family business has taken.

Almost 90% of the estate – tax returns filed by estates are 2.5 million dollars or less. The mass mutual 1995 family business survey found that provisions for estate tax liabilities have around 26% of family business to reduce capital investment. The mass mutual 1994 family business survey found that 22% of business owners had made no provision to pay estate taxes.

The Arthur Andersen Family Business Survey of 1995 found that 38% of business owners had little knowledge about the magnitude of their estate tax liability. The result of this survey suggests that estate taxes cause business owners to alter the management of their enterprises in ways that depress economic activity. They invest less and create fewer jobs than they would if they did not face the prospects of estate taxes. Those who have paid estate taxes on the assets of a prior generation report reduced employment and investment as a result. The result of this survey confirms the previous work reported by **Astrachan [1998]**. He wrote, "The results strongly indicate that the modest revenue received from the tax is not worth its cost. The tax is apparently counterproductive, significantly limiting economic growth, development and job creation".

Figure 2.1 shows the steps family business owners have taken to minimise state taxation as stated by the study.

Figure 2.1. Steps Family Business owners have taken to Minimise Estate Tax



The most conservative estimates of the worldwide percentage of business that are family owned range from 65% to 80%. In Chile, it estimates that 75% of all firms and 65% of medium to large firm are family business. **Gallo [1995]** states that in Spain, for example family business accounts for 17% of the 100 largest companies, 23% of the 1000 largest companies and 71% of the companies with annual sales that expect 2 million dollars are family businesses. In the U.K, 76% of the top 8000 Companies are family owned **[Hayward, 1989]**. Throughout Latin America from Mexico to Tierra del Fuego, family business comprises an estimate of 80% to 98% of all private enterprises

[Poza, 1995]. This overview shows that family business plays a significant role in the economy of various countries.

Family business in the Netherlands was studied by **[Florence 1997]**. Almost 50% of the Dutch companies with at least 100 employees are family business, a percentage that rises to 80% if all small and medium sized companies are considered.

More than half the family businesses in the Netherlands are 30 years old and more than 80% of the large family businesses were founded at least 30 years ago. In 41% of the family owned businesses, the first generation has direct control over the enterprise and 15% are managed by third generation. The Dutch family businesses generate 2.3 million jobs representing 63.5% of the total employment of the private sector and almost 39% to 46% of the total Dutch employment. The family business accounts to almost 40% at most 60% of the GDP of the Dutch economy. Almost 63% of the spouses of CEOs of a family business work in the business and about 40% of them own shares in the family business.

The collapse of the soviet empire and subsequent liberation of East central European Countries has created an opportunity for the rebirth of entrepreneurship and family business development. Considerable research has been conducted concerning entrepreneurship in the transforming economy of East central Europe by **Walsh [1982]**. Very little is known about the role of the family business.

Romania had one of the highest state dominated economies in eastern central Europe with over 95% of the business nationalised. As Romania began its social and economic transformation in 1990, news and information began to flow freely from the west. Romanians interest in establishing their own business began to grow. Owning a business was forbidden by law until January 1990, when Decree Law number 54 authorised the establishment of private small business. On average, Romanian Enterprises own 63% of their firm. Only 33% own the entire business and 25% own only half **[Family Business Review, 1997]**. Almost 90% of all the family business in Romania has a family working in the business. Family business is more concentrated in trade, commerce and service. During the period 1995-1996, entrepreneurs accounted for about 50% of GDP compared to 21.5% in 1991.

2.1.4 The case of family business in the Kingdom of Saudi Arabia

Saudi Arabia pursues a free economy policy. No restrictions are imposed on imports or exports, except for certain goods that are banned in Saudi Arabia. The pro-development economic policy of the Kingdom seems to diversify the national sources of income through gradually reducing reliance on oil, which finances the bulk of the state current expenditures. The government plans to develop the national resources such as minerals, gas and water resources. It encourages citizens to invest in feasible industries that depend on local energy and raw materials, and in large-scale agricultural projects, which make use of modern machinery in irrigation and production. The open door policy is aimed at enabling the private sector to assume a leading role in establishing, inducing and supporting the Saudi economy, which is the basic element of Saudi economic policy. The government is directing great attention in all its developmental plans towards granting more freedom to the private sector, allowing it to assume a leading role in the development process and to perform more efficiently. This is being achieved by providing it with many facilities, incentives and services, through the agencies involved in the development of the Kingdom's economic sector.

The overall objective of the Kingdom is to transform the economy from an overwhelming dependence on export of crude oil to a diversified economy, and industrialisation is considered a vital element in the entire diversification strategy. The industrial sector has been one of the major contributors to the GDP. Its growth rate is around 6% in 1994. The political stability and genuine steps to develop the industrial sector attracted large foreign capital and technology. The industrial policy of the government announced in 1974 encourages private investment in the industrial sector. The government was also willing to fund the projects to an extent, and participation in management in those projects.

The industrial policy encouraged private investment in high technology and low cost production sectors. It further reiterated that the government would be a partner and not competitor to the producers in the private sector.

The policy also states that the government recognises the right of the business community in the industrial field to select utilise and manage the economic resources, including industrial workers as far as this does not contravene with statues in force, in order to raise the productivity of the industry to its maximum.

The government welcomed foreign capital as well as foreign expertise and participation in industrial development projects in co-operation with Saudi businesspersons. The industrial development in the Kingdom is comparatively recent in origin and comprises three groups as discussed with the chamber of commerce director in the eastern of Saudi Arabia:

- The first group consists of basic industries such as large-scale hydrocarbon and mineral based industries. They are capital and energy intensive. These companies are usually joint ventures with foreign partners who have varying decrees of control but never exceed 50%.
- The second group consists of industries licensed by the Ministry of Industry and Electricity and they are often described as the manufacturers sector. Most of those industries are owned by family businesses. There are about 2,340 operational factories in the Kingdom during 1995 with an investment of SR 105.6 billion. Out of the total capital investment, 65.4% was in chemical and plastic products, 12.5% in construction materials and 8.4% in metal products, machinery and equipment, 5.7% in food and beverages sector. Together these four sectors accounted 92% of the total capital investment. A capital of SR 25,418 million was invested in expansion of 627 operational facilities during 1988 – 1993.
- The third group is composed largely of labour- intensive small workshops in repairs and small-scale production activities. These workshops neither require an MIE license from the government nor from the local municipalities.

Most Saudi family businesses area concentrated in the second and third form of industrial groups. Although not statistical evidence exists about the role of family businesses in Saudi Arabia, it still can be deduced from the above definitions that about 95% of the private owned firms are family managed. The regulations for companies issued by royal decree in 1965 with subsequent amendments contain the roles and procedures for various types of businesses, which are mostly owned by family, are:

- General partnership firms.
- Limited partnership firms.

- Joint ventures [temporary associations for carrying out specific projects].
- Partnership limited by shares.
- Companies with variable capital.
- Co-operatives.

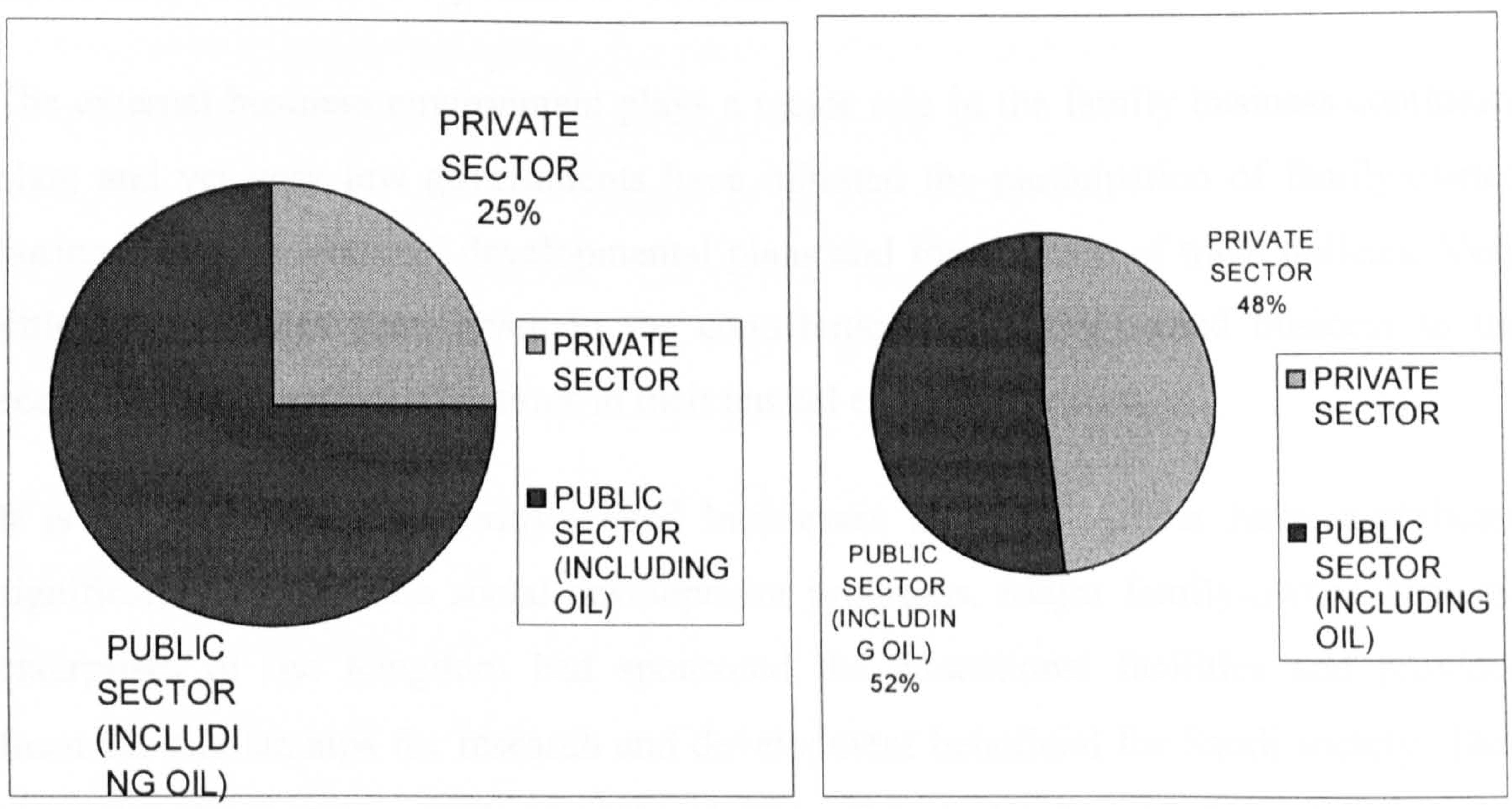
For joint ventures and registered foreign business branches in Saudi Arabia, the government encourages the foreign capital investment in co-operation with Saudi businesspersons. Foreign companies need to have an import agent or local representative to bid for tenders in Saudi Arabia and to establish business or distributorship in Saudi Arabia. Saudi government encourages the private sector of which 95% of the firms are family managed, various incentives have been made available so that they take part in the economic development of the Kingdom:

- Provision of land in areas designated as industrial cities.
- Provision of services at heavily subsidised prices.
- Full customs duty exemption for raw materials
- Availability of industrial loan.
- Favourable tax benefits.
- Government preference for national products etc.

More than 95% of the private sector firms are family owned. The GDP in current prices for the year 1993 was SR 460 billion. The private sector accounted to about 48% of the GDP. The drastic fall in the oil prices in 1993 lowered the Kingdom's GDP growth to 1% where as the private sector registered growth rate of 5.1% and 4% in 1993 and 1994 respectively as compared with 1.4% and 3.8% for the years 1989 and 1990 respectively. Meanwhile the share of private sector in GDP increased from 25% in 1973 to 48% in 1993. The private sector offers employment to about 56% of the total employment in the country. The oil sectors contribution to GDP was decreasing from 39% to 34% due to the country's massive diversification of revenue sources, which culminated in the remarkable development of private family business in trading, industry and agriculture.

Figure 2.2 shows the comparison of Saudi Private Sector GPP of 1973 and 1993 to illustrate the points made above.

Figure 2.2. Contribution of Saudi Private Sector in GDP



1973 **1993**

(Source: Chamber of commerce- Eastern province, Saudi Arabia- 1994)

The only reasonable conclusion drawn from the above data cited is that family owned business place an important role in the modern industrial economy and on the world economy development in total.

2.1.5 Discussions on the general concepts of family business

In almost every major economy in the world, family-owned businesses contribute a significant amount of GDP and the national developmental plan. In Saudi Arabia, they contribute to about 75% of the non-oil GDP and contribute 50.6% of the total GDP by the end of year 2000. They also contribute the government exchequer by means of estate taxes and sales taxes.

Despite significant contributions to the economy, in many parts of the world, the state has made little effort in involving the family-owned private sector in national developmental planning. In some parts of the world, the chamber of commerce is the only link between the government and the private sector, which is not a true representation of the family owned businesses.

The external business environment plays a major role in the family business continuity plan; and yet very few governments have initiated the participation of family-owned businesses in the national developmental plans and formulation of trade policies. Very little coverage has been given to the contribution of family-owned business to the economic development of nations in their annual economic reports.

It is worth noting that family-owned businesses in Saudi Arabia have contributed significantly even in the social development programs. Major family-owned business enterprises of the Kingdom had sponsored the educational facilities and provided financial scholarships for research and development beneficial for Saudi society. They were also the first to contribute to the victims of natural calamities in various parts of the world.

Family-owned businesses of the Kingdom were instrumental in implementing the state policy of Saudiasation, where the local youth population was trained to replace the large expatriate population in an effort of industrialised nation building. Family-owned businesses have the target of increasing the local Saudi population in their workforce by 5% every year.

The literature review indicates the significant contribution of family owned businesses to the economy of every nation and yet has very little prominence in the trade policies or representation among the national planning comities or bodies.

2.2 "Family" and "Business" in "Family Business"

This section deals the characteristics of a family business, the role of a family in a family business, the role of personal factors in both family and business and finally common personal factors of family stakeholders in a family business.

2.2.1 Characteristics of a family business

Despite their intrinsic differences, the family – the first and the simplest institution of society has been able to cohabit with the corporation one of the society's modern and complex organisation, primarily because of its ability to transform societal mores into simple principles of management. The critical issue of a family was and is to stay together which offered the only route to controlling others and creating wealth. Energised by this motivation, business families used bloodlines to build empires and perpetuate dynastic management. Only when family unity was threatened was the business also threatened. As diverse in size and type as family businesses are, there are certain common characteristics in both large and small business families. They are:

- Family business is made up of two overlapping subsystems - the family and the business. Each has its norms, membership rules, value structures and organisational structures **[Tagiuri, 1992]**.
- **Peter and Waterman [1982]** say family businesses tend to have strong cultures. Corporate behaviours based on an explicit set of values concerning the way to do business. These values often include emphasis on quality, loyalty to employees, long-term goals and closeness to customers all of which are linked with excellence.
- Family businesses have a sense of continuity and connection to their history and as they often note, there businesses are run for more than just profits. While other businesses frequently share these qualities, they are clearly associated with family business.
- Family business are special, the people who own them care deeply for each other. These caring relationships are passed on to the employees. Traditionally, a family business builds family spirit among all employees. Many employees of such business are deeply dedicated and feel identified with the first family. This is the most important aspect of company excellence **[Peter and Waterman, 1982]**.

A study by **Lyman [1988]** found that family businesses were more involved in customer service and more concerned about creating strong and positive relationships with customers than comparable to non-family businesses.

Davis [1989] - a leading authority from Wharton Business School on family owned businesses regards the long range thinking of family business much superior to any that exists in other organisation. Most of the family businesses have clear commercial objectives for the next ten to fifteen years. For instance, most of the Japanese family businesses plan twenty years ahead.

Neither family nor business remains static. While the family and the business contain many enduring structures that resist change, each system also experiences continual change and evolution. A psychologist **[Kepner, 1983]** characterised family and business as "co-evolving systems". Every individual in the family as a whole, and the business are all continuously growing and changing as in each individual's relationship to the business. In a family firm, the strands of the family system are so tightly interwoven with those of the business system that they cannot be distinguished without seriously disrupting one or both systems.

Family businesses are very fragile. The average lifespan of a family business is 23 years **[Ward, 1987]** with succession and sibling rivalry are the biggest drawback of family businesses **[Lea, 1991]**.

The most important reason for the prevalence and success of family business is that family closeness and understanding. They know each other deeply, are aware of one another's abilities and weaknesses and know what they stand for. Family members trust and care for each other, are loyal to each other and can talk quickly, share information and get things done efficiently.

Family members have an already established hierarchy. Therefore, they know who to defer to, where they stand and how to divide tasks according to different status and abilities. **[Jaffe, 1991]**. The other unique qualities of family business described by Jaffe are:

- Focus on quality results in pride in product, family name and customers.
- Paternalism: Taking care of workers, knowing what is best, strongly non-union, employees are well paid, asks high level of commitment and loyalty from employees.

- Stability and Long Term Focus: Stick to their core business, stay clear and focused, maintains brand and customer loyalty via quality and consistency.
- Difficult Changing: Confidence in their way of doing things, suspicion of new ways.
- Personalise Cultures: Personal relations with key people are important. Employees need to fit in highly political environment.
- Power stems from relationships.
- Family business founders have complete faith in their business idea. They are usually single-minded and hardworking.
- Family business founders accept greater risk in uncertain business environment compared to managers in big business firms.

Family business plays a critical role in creating new technology and products. Large organisations are more likely to be sources of process innovation, when they do develop new products these tend to emerge from incremented improvement or refinements. Family businesses on the other hand are more likely to strive for the unexpected leapfrog product innovation as a differentiation strategy **[Kepner, 1983]**. Over 60% of major inventions developed in the 20th century were the work of small independent family businesses. Family businesses are more responsive and receptive to the changing perceptions of the customers compared to the large organisations. Family business personnel are more self disciplined compared to large organisations, due to their sense of identity with the family or the owner of the business.

2.2.2 Role of family in family business

The family business is a unique organisation that integrates a business system with a fundamentally different family system. The business system is organised to achieve specific goals, driven by tasks and characterised by competitiveness. A family system on the other hand is bound and motivated largely by traditional responsibilities and loyalties. It is characterised by unity. Meshing one system with another inevitably means that many of the family biases, quirks and internal relationships will influence upon the business operating style, decision-making and future prospects. Both the business and the family are unpredictable organisations. People in families – parents, children, brothers, and sisters usually relate to one another in ways that are not necessarily best for people in business to relate to one another. Family involvement adds several layers of complexity to a business. In a family business, one has to manage two different types of relationship with the same person. A study of 59 family businesses reported stress and conflict in some aspects of managing the family and the business relationship **[Rosenblatt, de Mik, Anderson and Johnson, 1985]**.

A healthy family business relationship begins with a structure to organise the family to keep in touch with what each member wants, what the family stands for and what the family wants from the business. A successful family business can only be created if there is an alignment of thoughts, values and goals between the family and business. Without knowing the family, it is impossible to really understand its business. Things that just do not make sense from a business point of view begin to take a meaning when the family needs and style are known. Every family business mimics the style of the family that creates it. Lying behind the business in its shadow are the relationships and need of a family. Indeed many of the frustrations, conflicts, difficulties, misunderstandings and confusion in a family business have their roots in the ways of a family. Because of this basic fact, before strengthening the business, there is a need to look at the family behind it. The family contains the spirit, the energy and the commitment that leads to the creation of business and it may also contains the deep-rooted dynamics that can overtime undermine the business.

There are two major types of family business namely:

- Single generation: This begins when one entrepreneur invites other family members of his or her generation to share in management/ownership of the business or when two brothers or cousins or a couple start a business
- Cross-generation: This usually arrives a later in a business life cycle when the founding generation has grown the business to the point where it can accommodate the next generation.

In a survey of 200 family businesses, partnerships among family members of the same generation as shown in Tables 2.3 and 2.4 **[Ward, 1987]**.

Table 2-3. Business Partnership among Various Family Members of Same Generation

Relationships	Frequency
Couple	16%
Brothers	27%
Brother/sister	18%
In-laws	18%

Table 2-4. Cross Generation Business partnership

Relationship	Frequency
Father/son	34%
Father/daughter	8%
Mother/daughter	5%
Mother/son	1%

The fundamental issue surrounding family involvement in business is the impact of overlapping conflicting family and business roles managed by those who are in business together. As **Lansberg [1983]** and **Kepner [1983]** point out, families and business exist for fundamentally different reasons. The family exists to care for and nurture its members, whereas businesses exist to profit economically through the production and distribution of goods.

The "two circle" and "three circle" models **[Tagiuri, 1982]** define the family business as two and three interlocking subsystems respectively of family, business and ownership, each with its own rules, values and structures.

In the business planning process of a family-owned firm, various strategic options are generated. The family consideration in choice of strategy should be taken. Some managers and academics resist this idea, believing that business decisions are and more clearly made when one ignores the personal interest of the family. On the contrary, the study conducted by **Ward [1987]** in twenty family business firms from different industries, criticised this theory and showed the beneficial effect of family involvement in the business planning. In this study, the twenty business families were asked to asses their companies according to the planning process. Managers first determined the relative strengths of their company and next explored the attractiveness of their markets. They were given twenty strategic options from which they had to select one. Much to their surprise, the majority of owners discovered that they were undershooting their strategic potentials. They were pursuing strategies less ambitious than their own assessment would justify. Most of them were only fine-tuning the past strategies, while their companies had much strength to perform competitively. In a more in-depth analysis, it was found that the business owners were unsure of the kinds of influence their families might have on their businesses.

Firstly, they did not know whether all members would like to work together under a single corporate roof or would like to work apart in autonomous units. They did not know whether those in the business would have to provide financially for those outside the business. They did not know whether they, as parents, would need to set aside cash for funding the new ventures of entrepreneurial-minded off springs.

Secondly, they were not sure of the degree of their commitment to the company's future. They were unsure because they had not decided on key issues ranging from capital requirement to fund new projects to the talent assessment of potential successor.

Because of these uncertainties, which are all related to the family, the owner usually selected cautious, conservative strategies. The influence of the family had over ridden almost all business considerations. Such a study illustrates that family considerations shape the business judgment, whether their power to do so is formally recognised or not. It was also found that the owner's conservative course revealed an inability to answer the following three fundamental questions:

- Should the family create a fragmented business empire that consists of diverse business opportunities for various offspring? Alternatively, should family members literally work together under one roof and one corporate entity?
- Does the family have sufficient confidence in the next generation to go ahead with the succession plan? Alternatively, does unspoken concern about possible successors encourage a conservative wait and watch attitude?
- Does the family have sufficient financial resources to satisfy both family needs and business reinvestment requirements? Alternatively, does uncertainty lead it to simply conserve available funds?

These three fundamental, family-based issues will shape the final selection of strategy by business owners. Uncertainty about any of them will increase their conservatism and make them less willing to re-invest in their companies.

2.2.3 Role of the personal factors in both family and business

Personal factors include business dimension of family, inter-family conflict and personal factors. Whatever the size of the business, each family member has his or her own set of attitudes, opinions, obsessions and problems. As a result, an important aspect of understanding family business operation involves on awareness of the background, unique perspective and personal factors of these participants. Not much work or empirical evidence exists about the personal factor of a business owner or the other family members of a family owned business, as to how it might affect the business. A family business comes into existence due to an idea of an indifferent owner and by his efforts in raising the required capital and selecting the market for the product.

2.2.4 Common personal factors of family stakeholders in a family business

The personal factors of an owner that can affect the family businesses include the ambition of growth and the commitment to family purpose.

The ambition of growth:

Owner founders are fuelled by a strong desire of growth. They look at the growth of the family business as their personal growth. Studies by **Tagiuri and Davis [1992]** and **Guzzo and Abbot [1990]** showed that the business owner's personal mission is to build an enduring institution that will last and be even more successful in the future. They build and test a personal philosophy of management that attempts to make their organisation self-managed systems. They are also willing to be role models for their beliefs, not out of vanity but because they know, it is the best way to get good feedback on their philosophy and thinking **[Mintzberg and Waters, 1990]**. They also realise that public accountability is a great motivation for them. They believe it is their responsibility to pass on the business and its leadership in better condition than what they found it.

Commitment to family purpose:

The owner founders have significant personal energy and passion for growth. However, they eventually begin to focus on the goals and need of the family members to determine whether there is the desire and commitment to continue enthusiastically. The owner founder has a strong personal desire of estate planning for his retirement and for the spouse comfort and security. In older generations, spouses were typically homemakers; they were not financially well versed. Consequently, the business owner husband accumulates a safe liquid nest egg that could guarantee their spouses a secure and comfortable life. This desire is built on the assumption that their wives would outlive them by ten to twenty years. It is also based on the notion that their wives should not be financially dependant on their children. They handle the dependent children in the same manner **[Ward, 1987]**.

The personal lifestyle of the owner can affect the business. In the initial years of business establishment, and when the business becomes too proper, excess cash becomes available. The money often used to reduce the debts in the business and then it is used to reward loyal family members. This is spent on the family members as an improved standard of living. At the same time, if the owner founder has personal need of an opulent life style, and then it will affect the business with reduced capital for further growth. Similarly, the personal life style of the owner as remarriage or divorce can affect the business. A family business owner's re marriage may follow from the death of his spouse or much more likely from marriage breakdown. One third of the marriages in the U.K. end in divorce, and for couples where both are partners in a family business, the percentage is very high. This creates a stress on the business owner and the business itself. As well as marrying into the family, the new comer is marrying into the family business whether she will actually work in it or not, she risks the same problem of every business owner wife **[Ward, 1987]**.

The personal goals of the business owner will also affect the family business. The present owner may have come into the present family business either by succession or due a marriage in a business family. If the personal goals and ambitions of the owner clash with the objectives of the business, it can affect the family business.

The personal values of the business owner affect the business. The values of trust, social development, and carrying the values of tradition of earlier generations can create a healthy work environment in the organisation.

The personal ability of the owner founder in terms of:

- Decision making capability
- Forecasting
- Risk taking
- Delegating authority
- Team building
- Cognitive and perception abilities

The personal perception of the family business owner regarding his freedom in the family owned business could affect the business survival. If the ownership is multiple and there is conflict of interest among the owners then the business is threatened.

If the owner in a multi ownership firm feels that the other owners are benefiting because of his ability and hard work and the share of profit is not according to the efforts and ability, then the future of business is threatened as the working owner may pull out to start his own business. The personal thinking and ambitions of the second and the subsequent generation will affect the life of a family business.

According to the experience of the author the various personal factors of second and third generations are:

- The personal ambition and desire of second-generation owner is some other activity other than family business. It could be arts or academics rather than business.
- In a cousin consortium business, the second-generation owner might feel there is not enough return on investment.
- The second generation may personally feel it is a waste of time in the present activity of business when there is other much greener pasture.
- The personal inability of second generation in business activity can affect the family run business.
- The personal skills and education of second-generation owner is important for continuity of family business.
- The personal perception of the second-generation owner about the importance of tradition and values of earlier generation.
- The personal attitude of second generation to be a nuclear family or a close-knit family.
- The personal ability of crisis management.
- The personal ability of handling inter-family conflicts of goals and ambitions.
- The personal ability of getting along well with father during the transition of power.
- The personal ability of getting on well with non-family mangers from the earlier generation.

Bowman -Upton [1989] of Baylor University Business School noted the most common reasons for children entering the family business. Table 2.5 shows the personal motivating factors and their associated frequencies.

Table 2-5. Personal Factors that Motivate Offspring to Join Family Business

Motivating Factor	**Frequency**
Make money	67%
Like the business	50%
Good career opportunity	45%
Family influence	40%
Help the family	39%

2.2.5 Major family Stakeholders in the Business

The stakeholders of a family business include the following members.

2.2.5.1 Founder member

Based on his extensive research on family business, **Davis [1989]** of Wharton Business School has defined the distinction between entrepreneurs and founders. He also identifies three types of founders namely:

- Proprietors: The ownership in their firms is central. Their identity tends to be completely wrapped up with that of the company, they have little trust in any one's ability to make decisions, they dominate their children, and other members of the family involved in the business. The children are expected to enter the business as a matter of loyalty but the founder wants simply to control them, not to develop their talent with a view to ensuring a smooth succession. They may become dependent and submissive in the face of founder behaviour. The other side could be a turbulent saga of resistance and fighting back against the founders authoritarian regime and steadily deteriorating relationship that often ends with the son buying out the father's company as they both take their own separate ways.

- Conductors: Like proprietors, conductors are also firmly in control, but they are much willing to help build good staff, delegate responsibility and actively foster efficiency and harmony in the organisation. Conductors like the idea of a family business and they like the idea of children joining the company and working with them. They invite their children to take over an area of functional responsibility in the firm such that they may learn about the organisation. Conductors are proud of the family and of the family business. They work to engender a sense of common endeavour, loyalty and family warmth within the company. As the business matures, the conductor avoids facing the dilemma of succession and of having to favour one of his children at the expense of others. Tensions begin to build up, but a business culture has been created that is not well equipped to take stress, and the fabric of both business and family are put at risk.
- Technicians: This category of family business founder includes those who build companies based around their creative or technical skills and are often very of the obsessive types. They generally dislike administration and the day-to-day details of management. While they are relaxed about giving up control over administrative details, they are usually less willing to pass on their special knowledge to their children who may lack the same technical skills. The children usually tend to move into administrative positions in which they will not be competing with the founder, and as a result often find themselves in conflict with non-family managers.

2.2.5.2 Owner's wife

Traditionally, although the owner's wife accepted the tendency of the business to invade almost all aspects of domestic life, she usually knew little about it and was content with her role of supporting her husband in his endeavours while staying at home and bringing up the children. In today's environment, wives of the owner of business play a supporting role. They play a number of subtle behind the scenes roles as confidante and business adviser, including acting as soundboard for their husbands, often on issues of character and human perceptions and more prominently as family leader and symbol of unity, fostering teamwork and communication.

As wives and mothers, their first priority is the preservation of family and often when there is conflict in the business between the father and children, the owner's wife is the mediator who prevents a family civil war.

2.2.5.3 Women entrepreneur

During the past 20 years, the rising trend in female ownership has been the main highlight of new business development, principally in the sole-traders sector and among partnership and limited companies. Women tend to start business for the same reason as men, for self-satisfaction, freedom, and independence rather than with a profit motive. The available evidence suggests that female business owners are generally more creative and assertive than male owners. They usually work harder to achieve their goals. However, they have difficulty in delegating responsibility compared to men. The need of family support is as critical for women entrepreneurs as it is for men. In the United States, women head 21% of all business including full corporations and women founded nearly 40% of all new ventures **[National foundation for women business owners, 1996]**. Family firms have been described as extensions of the family, culture, dynamic and biases, many of which are gender related **[Hollander, 1988]**. A practice of most family business is to offer job security for their female members **[Salgonicoff, 1990]**.

2.2.5.4 Husband and wife teams

Husbands and wives in business together is not a new phenomenon, but what is new is a greater degree of business equality between the partners. Whereas traditionally, husbands have been the entrepreneurs while their wives may have played vital behind the scene roles in family firms, couples are now taking steps to ensure that the wife is recognised as a full equal partner. In such teams, complementary temperaments and talents are particularly important and in addition, they have to decide how to share the workload, allocate power and divide the rewards of their efforts.

Difficulties arise in decision-making and role definition. Some husband and wife teams find that making joint business decisions can be the key to success. Others divide decision-making responsibilities either according to job profile, strength and weaknesses or with reference to previously agreed roles. Clearly, the role definition is crucial, as it helps separate business and family issues so that criticism or conflicts about business decisions do not become personal.

Nelton [1986] has conducted an extensive study among married couples in business in the U.S.A. and has drawn some common characteristics of successful husband and wife teams. Some of these are given below.

- Marriage and children come first.
- The partners have enormous respect for each other.
- There is a high degree of close communication.
- Their talents and attitudes are complementary.
- They define their individual responsibilities carefully.
- They compete with the outside world, not each other.
- They keep their egos in check.

If divorce should ensure, the split-up will usually apply to the business as well.

2.2.5.5 Sons

The most common relationship in a family business is father and son. Many fathers and sons get on very well with each other both at home and at the office. Indeed when the relationship works, it is difficult to imagine a business team that functions more effectively. However, at the same time, it has been noted in most of the family business failures that father-son relationship has a unique potential for conflict. However, it is to be noted that the rivalry between father and son can still spill over from the family into the business often with destruction.

2.2.5.6 Daughters

With the advancement of women in business, daughters are increasingly considered for positions of power in family businesses. Throughout the history of family business, the son has always been favoured for succession. It is more often a daughter is considered for the top post in the family business only if there are no sons or the son does not show interest in the family business, very little is known about daughters' succession in family business.

2.2.5.7 *In-laws*

A talented son or daughter who marries into the business, enlarging its talent pool, but creating unexpected rivalries and tensions, activating ambivalence or joy in the founding generation, a very uncertain, difficult role. One factor contributing to this polarisation between very bad and very good is that in laws working in the business usually finds themselves in a situation in which almost regardless of their performance, family members treat them as outsiders and non-family employees as that they got these jobs just out of their marriage into the family.

Non-family employees are also an important component in family owned businesses. These employees have a distinctive psychological make-up that helps them in fitting into an unusually demanding work environment. They run into turbulent currents of politics and across rivalry among the various characters of the family business. Surrounded by an atmosphere of family friction and working with family members who may have acquired their position because of favour rather than competence, there is a tendency for non-family managers to feel that they are the only people doing any real work and they ought to have a stake in the success, despite adversity, of their efforts.

However, employees often have concerns about family involvement. The autocratic management style of an owner can inhibit the development of competent managers, or make it difficult to keep them. They are also frequently unsure of their job security in circumstances where the owner is not planning management succession, his children are not qualified to run the business and the most likely outcome is that the company will have to be sold.

Another source of insecurity arises from the fact that family members are suspicious about the loyalty of non-family members. Successful family organisations are those in which their characters are evenly balanced and every character gets a chance of his need satisfaction. The ability of the owner to control the intra-family conflicts is an important and deciding factor in the survival of family owned business.

2.3 Family dynamics and relationship management

The family involved in the family business has various members, with varying personalities and perceptions of the family business. They have varying expectations from the family business. Their interest and level of emotional attachment towards the family owned business also differs. The success and growth of the family owned business is dependent on the unity of the family and a unified family vision for the family owned business. Effective relationship management among the members of the family, family culture and values play important role in creating a unified approach of the family members towards the family owned business. Balancing the needs of every family member and the family as a total in relation to the business needs is the chief aim of family councils and constitutions, while planning for the family owned businesses.

An important issue in all family business is to understand the impact of family relationships and conflict on family participation. Too often families fail to recognise that family business conflicts result from a lack of participation and limited opportunities for the family to constructively explore individual differences related to values, goals and vision.

All families experience conflict and relationship problems as the family moves through its life cycle. Business families face bigger problems because they work so closely together. This proximity always means that family disputes overshadow work, even though the company continues to function normally. Many families are afraid to encourage participation because they fear the simmering conflicts may explode. They avoid honest and sometimes painful communication about the reality of their situation in the interest of the "myth" of familial harmony. There is no question that maintaining harmony is important, but conflict and change are crucial to the growth of individuals, family relationships and the company.

Keeping the family business alive is perhaps the toughest management job. Only 13% of successful family businesses last through the third generation. Less than two thirds survive the second generation. Studies of **Blotnick [1984]** indicate that fewer than 5% of all business ever started actually become family business through appointment of a successor from the next generation. From the analysis of Fortune 500 companies, one can deduce that, since 1955 only 188 companies have remained independent firms. More than 60% have been sold, acquired or declined in their sales significantly in the last forty years. The reason for these failures could be:

- Market and technology changes.
- Supplier and competitor alter the industry.
- Competitors copy the successful strategies.
- Lack of financial capabilities **[Wharton Entrepreneurial Centre, 1975]**
- Lack of skilled staff and management.

Beyond these typical business problems, the major pitfall for failure of family business is the family itself. The rigors of business also sharpen such typical family problems as sibling rivalry or competition between generations. The Wharton study in which 35% of all companies sold cited lack of management depth or successor as a key reason for selling out. **[Bechhard, 1983]** had reported that the average life expectancy of family owned business in the U.S.A is about 24 years, which coincides almost exactly with the length of time the average founder remains active in the company management.

As discussed earlier, a helpful framework for looking up the relationship between the family and the business is to think of family as a system and the business as a system. This helps in defining the relationship between the individual in each system.

The family system is emotionally based with its members bound together by deep emotional ties that can be both positive and negative. These ties and indeed a great deal of behaviour in family relationship are influenced by the subconscious (the need of brother to dominate brother, father to be stronger than their sons etc.)

The family system also tends to be inward looking, placing high values on long-term loyalty, care and nurturing of family members. In addition, it is a conservative structure operating to minimise change, keeping the equilibrium of the family intact.

The business system on the other hand is based on the accomplishment of tasks. It is built around contractual relationships in which people do agreed jobs in return to agreed remuneration and for the most part behaviour is consciously determined. It is also oriented outwards towards producing goods and services for its market place while emphasizing performance and results. To help ensure its survival the business system operates to make the most change and not to minimise it.

In the family business, these two systems overlap and are interdependent. Their differing purposes and priorities produce the special tensions that exist in family firms. At the point of overlap of these systems, operational friction and value conflicts are created for the founder and other members of the family.

2.3.1 Common causes of conflict

The common causes of conflict as described by **Levinson [1971]** and **Jaffe [1990]** are the following:

- Violation of one's sense of fairness or justice. Everybody grows up with a sense of what is fair and to be expected from the business and the family. Some common assumptions like those that say every child is treated equally are articles of faith. However, often these can be interpreted differently. Equal treatment in a business setting becomes a problem due to different talents, activities and circumstances.
- Feeling unacknowledged: This problem arises in family business when one does not feel that others, especially parents, notice his or her contribution, talent or ability. They may be critical or ignore the achievements.
- Feeling powerless: Closely related to feeling unappreciated, a sense of powerlessness arises when the people feel they have no impact on the family members. When the family does not listen to advice, idea and judgements. This is a common problem caused by family roles. A family member can be a professional with tremendous competency, but the family role of little brother or sister, son or daughter can prevent that ability from being recognised. This often accrues when a sibling comes to work in the business with an outside work

experience and the family finds it difficult to acknowledge his advice. The business suffers when a family role prevents the consideration of a business need.

- Confusion of family and business roles.
- Different personal ambitions of family members.
- Conflict due to different family and business roles.
- Conflict can occur regarding sharing of power.
- Conflict can occur for succession.
- Conflict occurs when members overstep personal boundaries
- Conflict occurs by ineffective ways of managing emotions
- Conflicts can occur when traditions and norms of family are broken
- Family myths and assumptions that individuals, especially offspring make about what they can expect and what is fair in the family but each person may interpret them differently. The differences will be the basis of their actions and can lead to conflict.
- Poor communication within the family can lead to conflict.
- Leadership style in the family business can lead to conflict.
- Resistance to change can cause conflict.
- Lack of responsibility and accountability among the members of family can lead to conflict.
- The competition for resources and clash of goals can create problems, and the way family members deal both with competition and conflict may create problem in business. In other words the potential for serious relationship problems in family business is substantial **[Levinson, 1971]**.
- Problems such as succession, the interplay of family issues and business divisions, the professional development of family members, the transition to non-family management, the retention of competent non-family employees and the balance of personal and corporate finances are all factors that make everyday life on the one hand and survival of the family firm on the other both problematic and difficult. **[Jaffe, 1990]**.

Expectations are a big problem and perhaps the chief problem of many family businesses. Expectations are developed by the family members and by the surrounding social environment, relatives, friends, workers, customers, suppliers and more. There is an expectation gap between what the business is expecting to get from a person's entry into the business and what a joining relative wants or is capable of offering. On the other hand, there is a gap between what the business is offering to an entering relative and what the relative is expecting. The greater the gap - the greater the disappointment **[Alcorn, 1982]**.

As the business grows, the number of non-family members within the business also grows and the organisation becomes more complex. There is not always full compatibility between the family members' education, capabilities and skills and the needs of the business. These relatives create a conflict for the manager owner, torn between the wish to run a profitable and productive business and the need to keep the family happy. Growth usually forces the family owned business to re-evaluate the management structure and employee practices. With growth, non-family members are employed and the business begins to form a hierarchical structure with a division of responsibilities under key employees. Relatives working in the company may by unable to adapt to the growth of the organisation. Relations who had no management direction earlier find it difficult to cooperage in subordinate roles with non-family executives. Previously, all positions were equal because all of them reported directly to the founder. However, the new-formed authority lines may be resented and resisted by old timers. This can lead to a conflict in the organisation.

Two or more offspring with similar ambition in one family business create a completely new dimension of rivalry. Such struggle can reach "The Kane and Abel" stage depending upon the types of personality and emotions of the people **[Jaffe, 1990]**.

In the case of one child being older than the other, different patterns of conflict will emerge.

Siblings may own equal shares in the firm and sit side-by-side on the board, but the problem inherent in the old-young relationship is compounded by their equal role in management. As they sit in planning meetings on board sessions, they can argue policy and procedure from equally strong position of power. However, when the return to daily operations in which one is subordinate to the other, the young one is usually subordinate and finds it extremely difficult to think about him in a subservient role. A self-fulfilling prophecy is achieved in the two roles because the older sibling distrusting the younger is likely to give the younger less opportunity for freedom and responsibility.

Unfortunately, far too many entrepreneurs contribute to existing sibling rivalry with what Carson called "seductive secrecy". Often they fail to designate the position and the responsibility of the sibling employees, pitting employee against employee and dangling the presidency and the company as a carrot before each of the children **[Beckhard and Dyer, 1983]**.

The two most commonly reported family conflicts in a family business are:

- Conflict during transition from first to second generation that is mostly between father and son. It may also be referred as founder-heir conflict.
- Sibling rivalry: The quality of family relationship is crucial for the success of the family firm. Sometimes the business itself is a unifying force that brings the family closer. When the entrepreneur starts a new business that flourishes beyond his wildest dreams, but rather than adding to the quality of family life, it serves as a catalyst in its destruction. Emotional tensions surface between family members that split the family and destroy the business **[Beckhard and Dyer, 1983]**.

2.3.2 Founder-heir conflict

Healthy family business requires personal satisfaction, business development, personal growth and family development to occur in particular a positive working relationship with the parents in the business is essential. A study of working relationship between fathers and sons and daughters by **Lemay** found several factors were related to positive experiences. These include:

- The relationship must be one of mutual respect and acknowledgement of each person's unique roles in the business.
- The heir needs to have clear authority and responsibility within the business, a sense of accomplishment and active participation in the continuing growth and development of the business.

- The heir needs to have a sense of equality with parents and the pair needs a mechanism to discuss and resolve conflicts.
- The heir needs training in the skills needed for business success through advanced education and work outside the business.

This study affirms that the process of taking over a family business is most effective when it is gradual. The heir entering the business is able to learn from the father, while having the father's respect for his/her growing competency. The key element in successful relationship is a sense of mutuality. Heirs feel that their father listens to them, take notice of their accomplishment and genuinely understands their needs for responsibility and achievement.

The evolution of parent-child relation to that of two competent dedicated and respectably working relationships occurs in the majority of family businesses. **Jaffe [1991]** gives four factors that can inhabit this process. They are:

- Conflicts in the entrepreneurial style of the founder: Founders have been the head of the business and family for many years. They are used to getting their own way, keeping their counsel and not communicating. They develop what is called as "Entrepreneur's disease", which is a tendency to close off to the contributions, leadership and ideas of others. This can be hurtful to the heir, who feels cut off from opportunities to learn and contribute. They feel that such behaviour means distrust or disapproval, carried to an extreme these attributes lead to a frustrated and angry adult child, who becomes resentful or withdraws.
- Difficulty in growing out of dysfunctional family patterns: Relations with the father founder may have been strained during the growing years of heir. Sometimes the pair hopes to put such feelings aside and develop a working relationship, and this can happen if the father is genuinely able to convey respect to the child. There may also be a genuine desire to forgive and try to rebuild a relationship through work. More often however, the work relationship is unchanged. The usual result is for the heir to exit angrily. The only way to improve such situation is to recreate the relationship with new levels of communication and clarity.

- Lack of clarity or expectation about roles and succession: Often the invitation is clear but what it means is not. Heirs have their fantasies and the founder has his own. At first motivation and commitment are high. However, the business may demand years of financial sacrifice and the heir may feel that his or her contribution should be rewarded in this lifetime, like any employee. Alternatively, the heir is eager to take up the top role and the founder does not discuss about it at all. This can lead to erosion of the relationship and bad feelings in the heirs and their families. Clash of needs/interests due to differences in life stages **[Tagiuri and Davis 1989]** mapped the developed stages of fathers and sons and found that certain age matches are more or less harmonious.

When a young heir is starting out or finishing graduate school and his father is in his forties (mid life crisis), there is likely to be strain in a working relationship. Each individual facing his own conflict is less likely to be sympathetic to other. **Levinson [1974]** explains the dilemma of the relationship between father and son as: "The father often communicates to the sons that he is building the business for them, that it is going to be theirs, and that they should not be demanding either are in appropriate salary or in appropriate power because they are going to get it all anyway in due time. Nor should they leave the father and the business because it is self-evident that he has been good to them and is going to give them so much. If they threaten to depose the father or demand to share his power, then they will indeed destroy him. If they don't do as he says, then they are disloyal and unappreciative sons". So one has a situation characterised by mounting tension, as the father looks on the son as ungrateful, potentially even treacherous, while the son sees himself the victim of emotional blackmail and feels both hostile to his father and guilty for his hostility.

2.3.3 Critique on family dynamics and relationship management in a family business

The above sections discussed the importance of relationship management in a family. The main core strength of a family in business is the family unity and unified vision for their business. Their efforts should be focused rather than diversified towards navigating their family business in the turbulent external environment. The literature focuses on various factors that can lead to conflict among the members of the family. However, it does not cover the techniques of exploiting the conflict by the founder owner or the current owner of the business. Controlled competition among the siblings or the family members is healthy for the change management and development of the firm. The sibling rivalry form of conflict is not dealt with in detail by the literature. The current literature mainly focuses on the reasons for the conflict and the management of these conflicts effectively. It does not suggest the methods or techniques that can be adopted to enforce controlled competition among the family members to perform better or the techniques of exploiting the conflict to the benefit of the organisation.

2.4 Succession planning

In the best of worlds, owning and operating a family business ought to be a family affair and passing it along to its next generation to be fulfilling for all concerned. Both families and businesses are complex and unpredictable organisms. A succession process that either transforms an entrepreneurial business into a family business of extends family business ownership into the next generation can accentuate both the strengths and vulnerability of the family and business. By mixing the business dynamics with family dynamics, succession may produce new family stresses and throw a company into chaos, or it may form some very successful relationships among family members and carry the company to a new performance plateau.

Research studies by Ward indicate that only 30% of family businesses pass into the second generation. The greatest threat to the continuity of family business is the nature of the family relationship among the siblings, between spouses and between generations. What distinguishes these 30% of business that make the transition into the next generation of ownership?

Ambrose [1983] has identified certain key characteristics of those businesses that survive family succession.

2.4.1 Factors that favour successful succession in family-owned firms

Family members generally perceive the surviving business as financially and organisationally sound, profitable and positioned solidly in their industries and their communities. These businesses are also seen by the family as being satisfying, even fun to own and operate and as a way to meet some of the psychological and emotional, as well as monetary needs of living.

The surviving family business is likely to be a family affair. Ideally, family members are employed in the business. They are kept informed about the business and they provide encouragement and moral support through its difficulties. The family understands the business and accepts it as a natural adjunct to family life. The probability of continuity is higher when family members coming into the business get prior training and experience for ownership responsibilities and management jobs.

The most crucial characteristic of the surviving family business is flexible, forward-looking leadership. The business that does not survive succession is:

- The one that the family views as marginal in revenues and profits, the efficiency of its management and operations and its market position. The company is a source of family tension instead of pride. The younger family members have low level of interest in joining the business.
- Succession may not succeed in the family business, when there is over family pressure on the upcoming generation to take over the business.
- There is not much incentive for successors to a family business that makes little or no allowance for non-business needs and interests.
- A company may not make it to the next generation, if the prospective successors see a future in family business as too easy and unchallenging. Even family businesses that make it over other hurdles tend to get into trouble if the senior generation will not let go. Family businesses do not survive if they do not plan for succession.

2.4.2 Succession planning

The most critical factors in assuring the continuity of an entrepreneurial family owned business is advance planning. Virtually nothing except blind luck will make ownership and management succession work if one has not thought it through beforehand. For this reason, every founder or family business owner should begin to develop a succession plan as early as is practical. Succession may be an organised and gradual process in which case a trained successor grows into the role under the owner's supervision and guidance or instead it takes abruptly and unexpectedly when the owner becomes ill or dies, in which an unprepared family member suddenly find the job forced upon them. **Sonnenfeld and Spencer [1989]** based on research work in U.S. companies described the ways in which the founder leaves the business. He discovered that the style of their exit is critical in determining how effectively the next generation is able to manage the family business.

Sonnenfeld concluded that the departure style could be grouped into four categories. The Monarchs – who hold on to the top post in the firm until they are forced out of the company by an offspring. This revolt can be in the form of ultimatums, the resignation of senior manager or action by the board of directors. The Generals – they also leave because of force but they immediately begin plotting their return swiftly coming back from retirement to rescue the company from the real or imagined inadequacy of their successor. The final two categories, the Ambassadors and Governors, have rather more positive departure characteristics. When the time is right, Ambassadors do not face huge difficulties in managing their personal withdrawal from the business. Also, rather than isolating themselves from the company they tend to become its mentor, often remaining on the board in an advisory capacity and scrupulously avoiding any intolerance with the autonomy of their successor.

In an interesting research follow-up, **Sonnenfeld [1989]** has examined the average business growth during their period of office by departure style category. The best performing group by a long way and on all yardsticks was the Monarchs. However, in the final two years of their reign the Monarchs were found to perform less well and were forced into second place by Governors. The study proved that although business growth over the long term is enhanced by the Monarch style, performance could deteriorate rapidly if that person stays in that post for too long. The successful ownership and management succession must include pre-planning analysis, developing a succession plan, managing ownership transfer, monitoring the transition and finishing clearly when the retiring owner hands over the control **[Lea, 1991]**.

Succession is widely recognised as "the most important issue that most family firms face" **[Handler, 1994]**. In the context of family business, succession involves the transference of leadership for continuing family ownership **[Davis, 1968]**. For a family business to outlive its founder, it must experience succession. In other words, succession constitutes the central issue that must be addressed in order for the family business to survive and be passed on through generations **[Applegate, 1994]**.

Heightened by the awareness of succession many of the family firms have prepared plans to guide succession and the percentage of firms planning succession is around 50% **[Selz, 1995]**. A failure to appropriately prepare for succession has been cited as a major impediment to survival. **Handler [1988], Beckhard and Dyer [1983]** amongst others challenged such arguments, stating that they find no empirical linkage between the use of written succession plan and terms continuity. Over the years, there has been several exemplary review of research on the topic of succession (**[Brady and Helmich, 1984]**, and **[Handler, 1994 and 1988]**). A comprehensive survey of the past thirty years of research by **Kesner and Sebora [1994]** found that although articles of succession have increased by 25% since 1970, much of the research has been so diffused and chaotic that it does not provide clear understanding of hypothesis relationships or a consistent model of antecedents, consequences or contingencies. **Handler [1994]** identified four major areas where succession research is scant:

- Succession among different ethnic groups
- The impact of family dynamics
- The effectiveness of succession
- The role of gender

Considerable evidence exists to substantiate the belief that the presence of conscious organisational planning and preparation for succession is among the most important factors in ensuring effective succession **[Kesner and Sebora, 1994]**. To maintain family and organisational cohesiveness, management must develop planning process and mechanism that provide a valid structure for the transference of leadership. **Christensen [1953]** proposed a model of succession that consisted of:

- Identifying the pool of potential successor.
- Identifying the successor.
- Notifying the successor designate and other management leaders.

The succession model proposed by **Ward [1990]** consists of the following steps:

- Welcoming family members to business.
- Planning the entry into the company.
- Selection of a successor.
- Timing the announcement.
- Managing the sibling relationship.
- Managing the transition.

2.4.3 Welcoming the family business

The vast majority of parents who own a business want to pass it on to their offspring. Similarly, a study by **Birely [1995]** indicates that the majority of college students with the option to enter a family business do so. It is because it offers them many opportunities compared to any other profession and because it has glamour of entrepreneurship and self-employment. Yet none of these guarantees that the next generation will join the family business. There are many obstacles to overcome which includes:

- The fear of parents that the child will never have chance to be his or her own person after entering the family business.
- They worry about the family conflicts.
- They fear the entry of children in business will drive away loyal mangers.
- Similarly, the offspring also see drawbacks in entering the family business.
- That they may have trouble with their parents or with siblings.
- They fear they will fail in full view of the whole family.
- The peers would consider it an easy way out to getting a job, etc.

Lea [1991] has defined four principles in marketing the business to the family:

- Developing a favourable image
- Defining the product appeal
- Pricing
- Selecting outlets

He adapted these principles from the American marketing practices. The application of these principles however differs from other business goals.

Make rules for participation early and enforce them fairly. The rules themselves are relatively unimportant. They may be rigid, such as requiring the children to posses a degree in business or first hold an outside job or they may be flexible allowing the heirs an entry no matter what their preparation. The key to success is establishing the rules clearly, then communicating and applying them fairly to everyone. These rules act as a verbal contract between parent and child. They are best established before the offspring are of the age to enter the family business. The key rules should cover the following:

- When and under what circumstances children are welcome to enter the business (including how much education and previous experience will be required if them and whether they must fill a vacant post or one created for them).
- When the possibility of entry has been foreclosed?
- Whether the possibility of re-entry offer voluntary or involuntary exit is permitted.
- Whether part time work is permitted.
- Whether in-laws are permitted to join the company and if so, in what capacity.

2.4.4 Planning the entry into the family business

Once the invitation to the family members to join the company is accepted, the immediate question to be answered are, how should the offspring enter the business and what is the best method to groom them for the tasks of new ownership? Since the next generation will indulge in activities of developing new strategies, building new management team adding formal management systems, they should be trained to be prepared to meet their needs, as well as their personal goals. This can be achieved by:

- Asking the successor to join experience outside the family business. This has many advantages to both the business and the individual. The successor should be encouraged to get a job in another firm immediately after graduation. They should gain work experience on various activities, gain promotions, work with different bosses and reach a point of sufficient responsibility to implement their own ideas on a particular project. It is important that the successor select a firm larger than his family business, as this will prepare the successor to guide the family business into a future that is more complex and challenging than the present. In this process of learning, the successor learns various management systems and practices that may be of use to the family company. They may come across talented people who might become their contacts in the late years or their employees. They are also exposed to different markets, different types of competitors and different strategies. These experiences broaden their view of the world and better enable them to identify new business opportunities.
- Provide the successor with a specific job that the organisation clearly needs. When the offspring join the business, they will need appropriate training positions. Line positions in sales or field services or operation positions that ultimately lead to supervisory management work well in this regard. Staff positions or assistant to the president post work less well because they frequently they do not offer clear responsibility and accountability. Whatever the job it should be the one the organisation needs and not the one created to provide the successor a job. Later successor should earn some organisational autonomy of his or her own by opening up a new territory or starting news store or a plant. Such projects help develop managerial talent. They also help in avoiding sibling rivalry as the areas are demarcated. Projects on which siblings work as a team are also necessary to reveal the future family leadership skills, which is an important prelude to selecting a successor.
- Appoint a mentor, someone other than a parent for early teaching and evaluation of a successor's performance. A well-chosen mentor, who is a senior manager outside the family who has broad business experience can teach the successor how to rum a business. Ideally, the mentor should be an owner's talented and core manager who is deeply trusted and respected. Through the mentor relationship,

the successor will learn how to manage people and time, as well as gain valuable business principles. Such training can occur over a period of three to five years. Later when the successor begins to feel that he has ideas on how to do things better, then the successor should be given a different job challenge.

2.4.5 Selection of successor

The selection of successor marks an important event in the history of an organisation, where the passage of business occurs from one generation to the nest. It is a choice, which many families find difficult. In fact, many families avoid the issue of succession entirely **[Lansberg, 1994]**. The business of their families tends to grow leaderless, unless one successor takes control through a revolution of some sort. That puts the business through a painful organisational turbulence. To avoid their development succession would be planned. Key issues in planning the succession are:

- How to select one successor from several siblings.
- What is the appropriate time for selecting a successor?
- What effect will this change in leadership have on the current owner and how can be best handle the change?

2.4.6 Method of selection

Based on the experience of the author the various alternatives that a family business has in selection of its successor are:

- Create a fixed rule such as the oldest child will be the next successor.
- Select the best candidate from the group.
- Develop an interim non-family leader.

Traditionally, most of family businesses choose a successor according to some long-standing rule as the oldest child on the first-born son or the best-educated child will be the next successor. Clear rules are an advantage in that they end delay and indecision. They also allow the family to adjust to the new leader. However, mechanically applied rules may result in an inefficient leader for the company and can lead to conflicts.

For some family business, selecting a successor who is not a member of the family is an excellent, albeit temporary solution. This works well in situations where the offspring are too young to assume the top post. A non-family successor provides a buffer between generations that may be as much as thirty years apart. A study by **Blotnick [1984]** suggests that family businesses with such better management between generations are actually more profitable than those family leaders immediately succeed one another. This study of nearly 600 family business showed that those companies with better management leader roughly twice as profitable as those that simply passed from older to younger generations of the family.

"Buffer Management" gives time for family members to mature. It also allows an entrepreneurial leader to vent his natural dissatisfaction with any successor on an outsider rather than on his own offspring **[O'Toole, 1984]**.

2.4.7 Timing the announcement of the successor

Families agonise over when to declare the appointment of a successor. Most of the families end up postponing the issue to avoid conflicts, almost until the company faces a crisis due to the illness or death of the owner. It noted that family business benefit by an early announcement of its successor.

It assures the non-family employees about the continuity of term. It ends the uncertainty early about the future and destiny of the firm.

It is particularly Valuable knowledge in these days of rampant mergers and acquisitions. Since employees know more and more people who have been fired by the new ownership of acquired firms. Suppliers and customers are reassured for the same reason. Family continuity is planned. Everyone in the family has a chance to adjust to the news and time to plan their personal careers and roles. There is time for the family to find opportunities for those who were disappointed and there is more time for family members to learn to work together in new relationships.

2.4.8 Managing sibling relationships

As the company is transferred to the new generation, the owner has to deal with the relations among the siblings. They are shaped by many factors, including the order of birth. Each sibling will struggle to outshine the others, perhaps nowhere more vigorously than in a family business competition is likely to be sharpened further by the business owners need to ultimately select one child as his successor.

Sibling striving for the top post will work hard and put in excellent individual job performances. If the battle becomes rough and rumble and efforts are put in to derail other siblings, then it will have an unhealthy effect on the company. In successful family business, both siblings and parents work to make sibling rivalry positive rather than negative in effect. There are techniques such as **Landsbergis [1988]**:

- Determining a general well-publicised philosophy to govern salaries and promotions.
- Assigning siblings separate positions within the company.
- Developing a code of conduct that will govern siblings' behaviour among themselves.

2.4.9 Resistance to succession planning

Lansberg [1988] of Yale University identified the various factors that offer resistance to succession planning in a family business. He categorised them into factor concerned with the founder, the family and the employees.

2.4.9.1 Founder factors

The founder of the firm faces powerful psychological deterrent to planning his retirement. The following factors are seen which offer resistance of succession:

- Fear of death: The founder's success is usually driven by a powerful ego and the conviction that they control their destinies. Facing up the fact that one-day they will not be around to look after the business and that one-day, they will have to retire into oblivion prevents the founder from succession planning.
- Reluctance to loose power

- Loss of identity. The founder tends to identify himself strongly with the firm. His sense of his own identity will be inextricably linked to his role in the business. The thought of letting go of the firm can be felt as a loss of personal effectiveness and potency.
- Bias against planning: The founder owner's energies are focused on the day-to-day operation and their management style discourages formal planning, which they often perceive as bureaucratic and restrictive. Hence, they do not plan succession.
- Inability to choose among children: In norms of business, the choice of successor to lead and run the business should be based on competence. Family values on the other hand prescribe that children should not be discriminated and loved equally. Family values tend to prevail in this conflict with founders unwilling even to contemplate what they see as preferential treatment of one child at the expense of other.
- Fear of retirement: The thought of moving out of day-to-day work into vacuum of retirement is seen as a life-threatening event. The founders have few interests outside their work. The fear of retirement prevents the succession planning.
- Jealousy and rivalry: Nobody can run the business as well as he is the symptomatic view many founders develop about their own importance when they have to struggle with succession. It also inculcates the inevitable feelings of rivalry and jealousy that they experience towards successor who is waiting to take over control of their business.

2.4.9.2 Family factors

The family is another source of succession resistance.

The spouse's resistance to change: The founder's spouse is frequently reluctant to accept the retirement of her husband. She too may not relish the prospect of giving up the many key roles she has played in and around the family firm. As well as direct involvement in the business, the company will probably have become a centre of activity and a significant component of her social identity. She may fear her importance will be diminished if her husband relinquishes control of the business.

Family taboos: The cultural norms that govern family behaviour discourage discussion between parents and children about the family future after the parents die. This is more particular regarding financial matter and the sibling who a talk about this is looked upon as greedily interested in inheritance rather than the health of life of his parents. Succession planning involves open discussion on their topics and is then usually avoided in most families. The other family factor could be the sibling rivalry, deep-rooted psychological worries about abandonment of founder, etc.

2.4.9.3 *Employee and environment factors*

Job insecurity of the employee due to succession can create obstacles in succession planning. The senior managers close to the founder feel that the new management might get sweeping changes in the organisation that can threaten their role and power in the firm.

External factors. Outside the firm, the customers and suppliers are reluctant to trust a new owner. Similarly the unwillingness of other entrepreneurs, the owner's peer group to deal with their own succession act to reinforce the founder's bias against planned management transition.

2.4.9.4 *Sibling rivalry*

Psychologist believes that sibling jealousy is rooted in the deep desire of children for the exclusive love of their parents. Underlying this is the child's concern that if a parent shows love and attention to a sibling, perhaps the sibling is worth more and the child is worth less.

Sibling rivalry is normal and in a family context can be seen as useful competitive ingredients in relationship that stimulate the healthy development of well adjusted, cooling adults. In the family business we have situation where the childhood rivalry between brothers for their fathers affection is perpetuated into adult life as a result of day to day contacts between them arising from their riles in the business. This exerts an influence on the business and the management decisions. If left uncontrolled, eventually it paralyses the organisation.

The custom of favouring an elder son as the successor of family business further aggravates the problem of sibling rivalry. The elder brother looks on to the younger as less competent and the younger as less competent and the younger often tries to curve out a special position for himself in the business. This leads to mistrust among the siblings. On occasion and without realizing often, they are doing it.

2.4.10 Critique on succession planning

The literature review suggests various methods of succession planning and the required characteristics of an ideal successor, but it does not provide information about the practical difficulties experienced by the family business, which adopt a particular model of succession planning. The literature does not reflect the consensus building efforts that need to be implemented in a family to select the successor. Moreover, the succession planning suggests the announcement of succession much before it is carried out in the firm by the founder member or the parent. The literature suggests that it mentally prepares the family members and the functional managers to accept the change in leadership at a pre-designated time. The literature review at the same time fails to acknowledge that it can in fact lead to more complex of rivalry among the siblings and situations of minimal co-operation, participation and motivation among the aggrieved party of family members, who have been denied the permission of leading the family owned business. The suggested methods of consensus building among the family members for succession planning by various authors are the family councils and family constitutions. Once again the literature fails to acknowledge the cultural aspects of certain societies where an explicit demonstration of conflict regarding the succession planning or the fear of reprisal from the founder member if the displeasure of succession planning method in a family is criticised by a member. The literature does not throw much light on this aspect of hidden displeasure of succession method by a particular family member, or the mechanism to tackle it and generate a consensus for the succession in the family.

2.5 Managing the succession transition

The transition period is the time between the days the successor is named and the day he is actually takes over, as the owner can be extremely successful. About two thirds of the companies who undertake this course of action manage to see it through **[Davis, 1982]**. One-third tail as the successor quits or is dismissed or the business sold. Much of this turmoil is not only because of sibling rivalry but also from the parent owner's difficulty in sharing control with the new generation. This leads to frequent complaints from the successor that his ideas are not being tried in the company. He has responsibility without authority, etc. On the other hand, the owner parent feels that the new successors are in hurry and not running the business properly. They complain that the new managers do not listen to their advice. Such complaints are a sign that the transition is in trouble. Solving them requires the following:

- Sharing decision: It is the most important skill required in an organisation where there is a transition from one generation to another. It is excellent teaching device. It allows the outgoing generation a chance to impart its business philosophies and gives the incoming generation a chance to learn what leadership is like. The spirit of shared decision-making means sincerely seeking the successor's opinion on key issues, listening to his answer and teaching that assessment into a final decision. It means making every effort to understand the other person's point of view. It means communicating the final decision to all concerned and that if decision so counter to the successor's own judgement, explaining why it was made. Only through such discussions can the successor learn the business and begin to help shake the future.
- Accommodating value differences: Most of the times the conflict between the owner and successor is due differences in values. The notion of differing values contradicts what most familiar believe, namely that members share the same values because they are a family. Sometimes, this is the case. However, far most often it is not that values vary among members of family for several reasons. The personality traits will shape the belief system and encourage natural distinctions within any family. The period in which an individual came to maturity will also affect his or her values. Most important of all, values develop as people pass

through stages of life **[Levinson, 1978]**. As a result, parents and their offspring will tend to differ significantly because of their ages. This can lead to predictable patterns as proposed by a recent study **[Davis, 1982]** at Harvard University of 200 father-son business teams. Davis found that sons between the ages of seventeen and twenty-five longed for their own identity. They wanted to break with tradition. They also wanted to break with their parents. Between 27 and 30 years of age, they eagerly explore career choices and development. They sought a role model to help guide those choices in many cases the father become the model. After that stage, they again typically sought independence and had a strong relationship with their mentors. They yearned for recognition and sought out risks.

2.5.1 Factors that affect the involvement of the next generation in the family business

The involvement of next generation in the family business can have dramatic consequences for the continuity of the firm. Careful management planning can affect new leaders who can help regenerate the firm and bring in decision of successors to join the family business is explained by **Stavrou [1998]** in the four-factor model.

2.5.2 Factor-based models

Decision about the role of the next generation tends to be emotionally loaded and therefore avoided by the majority of family businesses **[Lansberg, 1991]**. From the prospective of heirs, that decision is a part of a long process that starts early in their lives (**[Christensen 1953]**, **[Davis, 1968]** and **[Trow 1961]**). It is connected to three levels of offspring involvement in the firm. The first level called pre-entry involves offspring in the firm through family discussion, volunteer work or part time employment while growing up. The second level entry entails the full time employment, often in managerial position of offspring in the family business. Heirs can demonstrate the full potential of their management and leadership skill during the second and third level of involvement. If they do not participate in these levels, they may miss that chance and if they do participate and do not posses such potential, the business will suffer. However, the decision to join or not to join is not a simple one and involves multiple factors and consideration. The decision of the offspring to join the firm takes place somewhere between level one and two of the intergenerational transition decision model.

Offspring usually make their decisions between age 18 and 21 **[Handler, 1989]**, **[Ward, 1987]**. Intact, even though most offspring first become involved in the family business around age 13, many do not seek full time employment until age 21. In addition, where the previous generation employed in the family business have been prepared for their roles primarily through on jobs training (46%), the current generation is strongly encouraged to get college education. In reaching their decisions, offspring take into account many complexes and inter related factors as discussed in the following sections.

2.5.2.1 The personal factor

An appropriate and satisfactory, occupational choice can be reached only when a person considers his or her capabilities, interests and goals **[Ginsbery, Axelrad and Herma, 1951]**. Entry level and advanced career decision need to be consistent with an individual goal, abilities and desires. In his study of the offspring of family business owners, suggests that choosing an occupation and eventually gaining independence is a necessary process in the formation of a healthy identity. In turn, offspring may choose to work first outside the family firm to discover their interests as well as gain credibility and self-confidence in their abilities **[Goldberg and Woolridge, 1993]**.

Besides competencies and interest, other reasons for which offsprings join or do not join the family business may include the need of personal fulfilment. Keeping the firm in the family may be a matter or personal pride **[Christensen, 1963]**. In addition, eventually taking control of the firm may be a goal or may only be used as a temporary platform for future career moves **[Ward, 1987]**. The anticipation of wealth can be an irresistible lure especially when offspring have been raised in a luxurious lifestyle (**[Frishkoff and Brown, 1993]**, **[Rosenbelt, Demik, Anderson and Johnson, 1985]**). Joining the family business for their reasons may not serve the best interest of the business. It is therefore important that all the personal reason for joining the family firm and choosing that as a career path be carefully weighed against their impact on both the firm and the individual.

2.5.2.2 The business factor

A desire to join the family business may come from an interest in the firm's products, markets, operations and strategies. Offspring showing such interest may get discouraged of these opinions are ignored. In fact most of the times the parent-owner do not have confidence in the ability of offspring in running the business and then do not share the company secrets with the offspring. All this may contribute to an atmosphere that does not welcome change, which can discourage young adults from joining the family business.

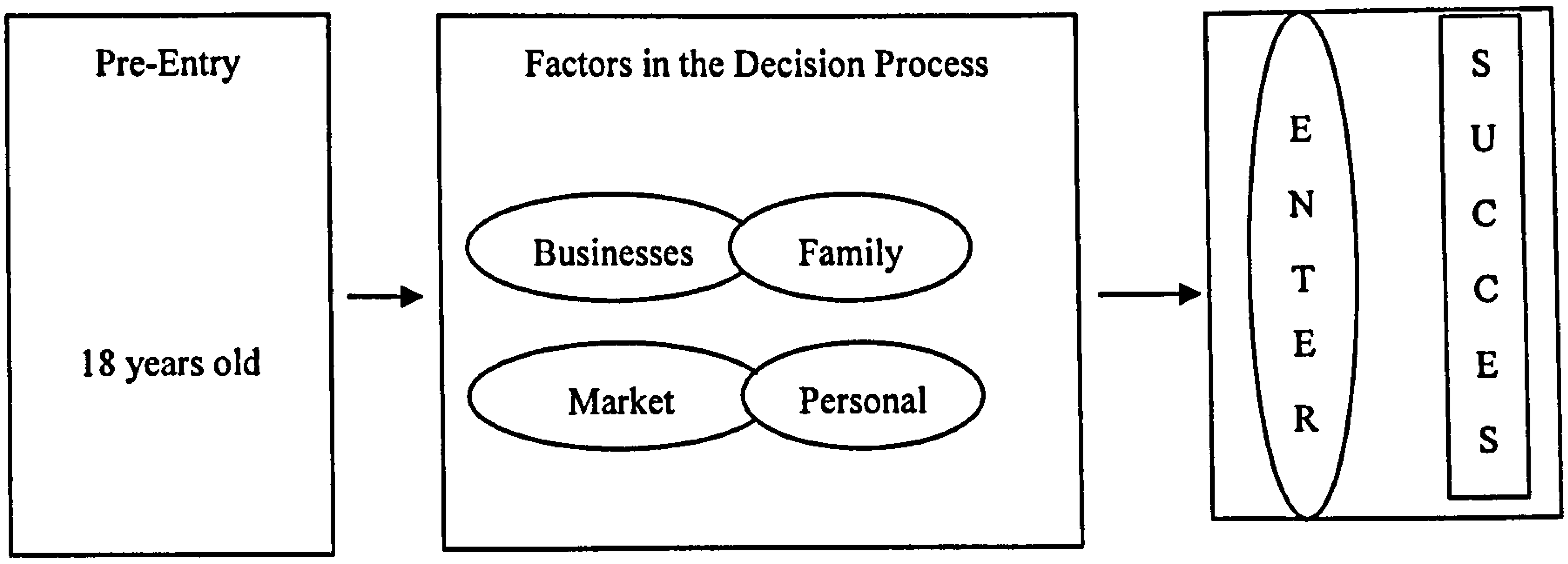
2.5.2.3 The decision process factor

The inability of owner-manager to share information and responsibility is often associated with the lack of professionalism. suggests that because father owner are too busy to plan their exit, most family firms fail after the owner departs. In addition, young adults may fear that if they enter the business, they may become jobless at age of 45 or 50, once their parents have stopped managing the firm. Coherent systems and strategies are non-existent; it can confuse young adults about whether they should enter or if they have the ability to run the firm **[Ward, 1987]**. On the other hand, some offspring may see the need to professionalism the business and create effective systems as a challenge. Figure 2.3 shows the integrational transition decision-making model as described above.

In summary, the degree of professionalism and business preparedness for the next generation needs to begin early enough to ensure sufficient training and avoid no-win situation for offspring.

Figure 2.3. Intergenerational Transition Decision Model

Level 1: The Decision Process Level 2 Level 3



2.5.2.4 *The family factor*

Family values and traditions have the greatest intact on the young adults, when they make their initial vocational choices (**[Eckrich, 1996]** and **[Handler, 1989]**). Some values may be consistent and others may be inconsistent with those developed by the offspring or may limit potential offspring effectiveness in the business. Some researchers (**[Alcorn, 1982]**, **[Goldberg and Wooldridge, 1993]**, **[Lansberg, 1991]**) have suggested the possible connection between birth order and an offspring's involvement in the family business. Closely connected to this issue is sibling rivalry and the ability or sibling to work together **[Anonoff, Astrachan and Ward, 1987]**.

Ethnicity can also affect offspring involvement in the family business. **Alcorn [1982]** has suggested a connection between the family's ethnic background and the level of obligation offspring have to join the family firm. In some situations, offspring may think they are not wanted in business because of parent's failure in communication (**[Danco, 1981]** and **[Ward 1987]**). In some cases, parents may pressure their offspring even those who may not posses the skills to join the firm **[Nelton, 1986]**. To escape the stigma of being owner's child, the offspring might move out and establish him a reputation outside parents' company. Conflict may arise when family and business roles become blurred **[Seymour, 1993]**. Working in family business can prohibit young adults from pursuing their interests, thereby stunting their growth as individuals and as professionals (**[Birley, 1995]**, **[Rosenblatt et.al., 1985]**, **[Ward, 1987]**). **Handler [1989]** found that offspring between 17 and 28 years old tend to be overly involved with their family. When the offspring were employed in the family firms, it can strain business operations as well as family relationship. He also discovered that most of those who entered their family firms without having chance to explore other options, felt cheated, frustrated and angry about the opportunities they missed. The complexity of family values and relationships and its effect on offspring can therefore greatly omit or enhance the effectiveness of the next generation on the family business.

2.5.2.5 The market factor

Market conditions such as the move toward globalisation of the workplace, increased specialisation of jobs, the creation of economic market groups like the European Union, the transformation of Eastern Europe, the collapse of Soviet Union and the economic expansion of Asian countries can have an impact on the employment and career plans of young family members. Today's period is characterised by dramatic and seemingly unpredictable change in the workplace where emphasis is placed on the globalisation of firms and economic times seems tougher than before. Opportunities may lead young offspring to choose employment outside the family business. Therefore, offspring involvement in or outside the family business may be significantly influenced by other employment opportunities available to them in the market place. The stage of a particular industry development also may move the offspring towards or away from the family business. These four factors are neither mutually exclusive nor totally dependent on one another. In other words, more than one factor may contribute to the involvement of future generation in the family business.

2.6 General critique about the literature review on family business

The literature in this chapter analyses the various developmental stages and history of family businesses. It identifies the various players of the family, who may influence the functioning of a family business, or its objectives. It also discusses the personal factors of various individuals in a family, which determines their level of commitment to the family business and their participation in the family business.

The studies mentioned in this chapter fail to emphasise on the interrelation of various family members, their relative importance to the family owned firms etc. The studies do not correlate the various individual members' personal perceptions about the family business, their objectives and ambitions, which change over a period. There is no correlation between the life cycle of a family business firm and the changing objectives and needs of the family members with time.

The literature identifies the personal factors of first, second and third generation. However, it does not discuss about the change in the intensity of personal needs, change in the level of ambitions, aspirations and changing perceptions of expectations from the family business by its members, with the change in time and life cycle of a family firm.

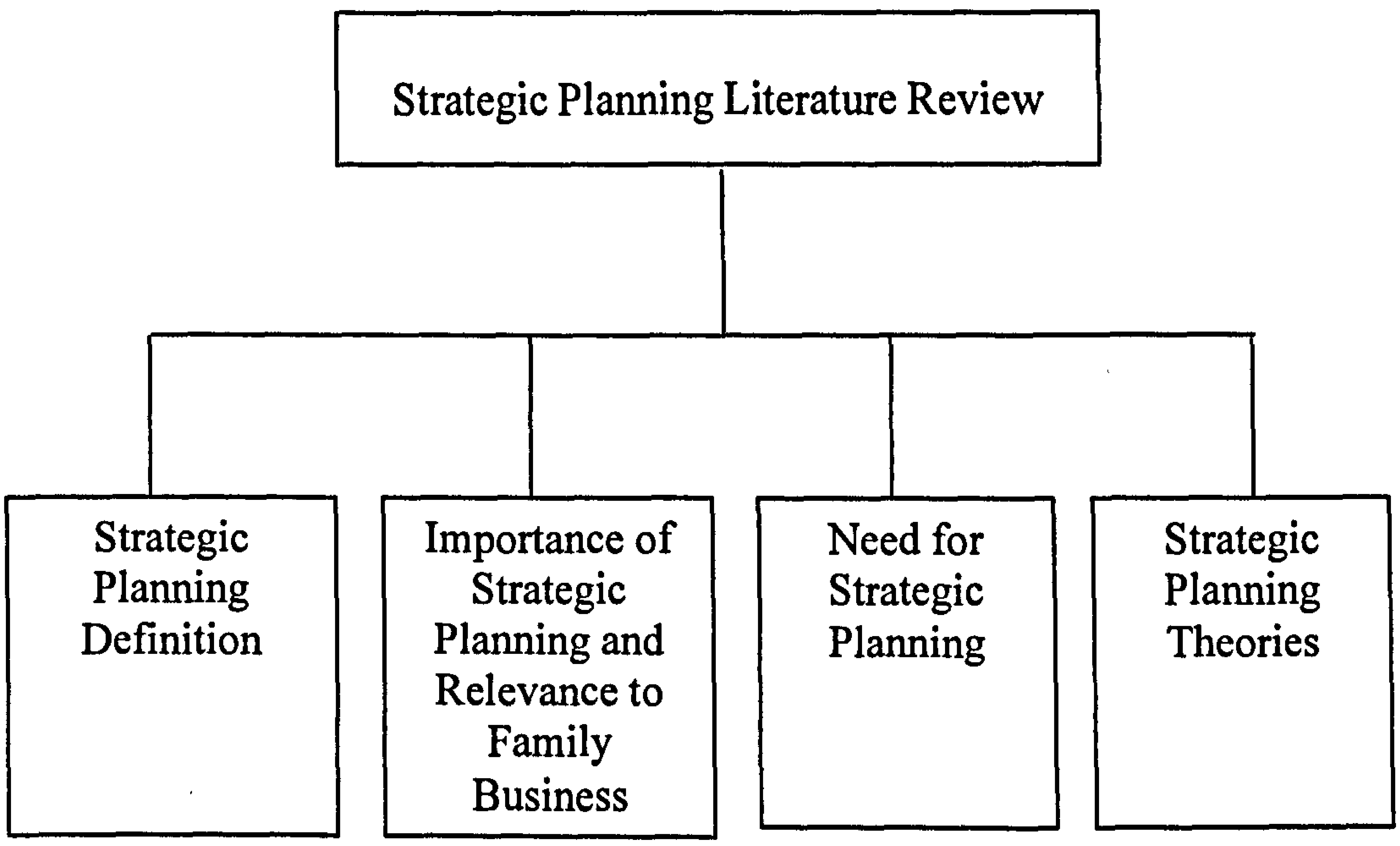
Some of the personal factors of each family member are expressed explicitly and some of them are hidden or not expressed for fear of isolation from other family members. The studies mentioned in the above literature did not emphasise on any of these aspects.

In our experience of family business dynamics in Saudi Arabia, we have noted that the culture plays a major role in channelling the personal factors of every family member. The Saudi Arabian family culture is patriarchal in nature. The head of the family has strict control on the family and the elder brother in the family is considered next to the father in the family. In most of the family businesses of Saudi Arabia, the eldest son succeeds the father in the business. There have been very little conflicts in the family about this cultural aspect of succession, which is an accepted norm. In our research, we also identified that some of the personal factors such as profit distribution in the family members were not satisfying in nature. Some of the family members personally felt they deserved higher profits. These varying types of personal factors were noticed to be different at different levels of age of family members and coincided with the life cycle and growth of family business firms. However, most of the personal factors of individual members were implicit in nature and were not openly discussed as the members of the family were bound by the family culture and value systems of the family.

The literature and studies mentioned in the above paragraphs does not identify the influence of culture and family values and traditions on the personal factors of individual family members.

CHAPTER

3 LITERATURE REVIEW ON STRATEGIC PLANNING



The necessity of guiding the future course of a business organisation arises at some point of course of its existence. A firm operating in a dynamic competitive environment is concerned with its survival and is engaged in efforts to secure a viable position in the product market or services. Business history provides umpteen examples of business enterprises that suffered reverses and those, which prospered over time. In most cases, the success or the failure was due to the ability or inability of management to formulate polices and plans to guide their destiny.

The term strategic planning refers to the process of developing a business strategy. Strategic planning provides a systematic way of asking questions and is designed to create insights into the company and the environment in which it operates. It challenges the past business practices and opens way for the new alternatives. A strategic plan, which spells out specific steps to better satisfy customers, increase profits and revitalise the company for the next generation. To accomplish this, goals have to be set. The strategic plan sets forth the chosen mission of the business, the direction of future growth and various programs to achieve that growth.

3.1 Strategic planning definition

Strategy, in simple words, can be defined as an "Organisation response to its environment over time".

"It is a conscious and rational management exercise which involves defining and achieving an organisation objectives and implementing its mission. The perspective of the exercise is provided by what an organisation intends to do"**[Ghosh, 1987]**.

According to **Dan Schendel and Hatten [1972]**, strategy refers to basic goals and objectives of the Organisation, the major programs of action chosen to reach these goals and objectives, and major pattern of resource allocation used to relate the organisation to its environment.

Glueck [1972] defines strategy as "a united comprehensive and integrated plan relating the strategic advantage of a firm to the challenges of the environment".

Chandler [1983] defines strategic planning as "determination of long term goals and objectives of an enterprise and adoption of course of action and allocation of resources necessary to carry out these goals'.

According to **Singer and Donoho [1983]**, "Strategic planning involves decision making and the activities in the organisation which have:

- Wider ramifications.
- Have a long time perspective.
- Use critical resources towards perceived opportunities or threats in a changing environment.

Waterman [1982] defines strategy as "a coherent set of actions aimed at gaining a sustainable advantage over competition, improving position vis-à-vis customers or allocating resources".

From the above definitions it can be deduced that strategy is a forward looking exercise in the business horizon, and it consist of streams of decision and actions with a view to develop effective long term and short term planning and policies with technological business forecasting, which would help the organisation achieve its super-ordinate goals.

Strategic planning is a process that combines three major interrelated activities.

3.1.1 Strategic analysis

Strategic analysis is the homework required to develop an appropriate strategy. It is the foundation for the strategic planning process consisting of three parts:

1. Consideration of organisation goals.
2. Exploration of the opportunities and threats present in the external environment.
3. Study of organisation strength and weaknesses.

3.1.2 Strategic formulation

Strategic formulation is the process that transforms the homework into a plan – the intended strategy.

3.1.3 Strategic implementation and evaluation

Strategic implementation is the process of putting the plans into action and seeing that as much as possible the intended strategy becomes realised strategy. The evaluation re-examines the pitfalls in the intended strategy and provides a feedback for further refining of the strategy adopted.

3.1.4 Critique on the definition of strategic planning

The literature suggests the definitions of strategic planning and the process of strategic planning in generalised terms. There have been few definitions, which define specifically the strategic, planning process in a family owned business or specifically the strategic planning process in a family owned business.

Majority of the private firms have a family, who are complete or partial owners of the firm. Yet the definitions proposed for the strategic planning in a firm grossly overlook the importance of family in the business. The vision of the business, neither the internal appraisal of the firm has any reference to the family objectives or the family vision for the business. The authors for years have given little importance for the family dimension of a business firm. The definitions of strategic planning in the literature have strictly adhered to the "Business Entity Concept" and have made little effort to recognise the importance of guiding force behind the business entity, and that is the family commitment.

Only when leading authors such as **Ward [1987]** proposed the family business management as a subject, the academicians incorporated the family commitment, and its vision for the business as an important precursor for the strategic planning process of a family owned business.

The first definitions of strategic planning incorporating the family importance in the strategic planning process, and identifying the family dimension of the business was done in 1986, when the authors such as **Ward [1987], Chau etal. [1996] and Hayward Stoy [1989]** stressed the need of incorporating the family needs, vision and commitment towards the family business during the strategic formulation and implementation.

3.2 Strategic planning and relevance to family business

Planning is deciding in advance the future course of actions i.e. what is to be done as well as how and when it is to be done. It involves projecting the future course of actions for the business as a whole and also for the different wings within it. Planning is thus the preparatory step for actions and help in bridging the gap between the present and future. Earlier the main emphasis in planning was for today's business based on today's decision. However, with a changing global scenario in relation to political, economic and technological factors, more emphasis is on the future oriented planning. Today the entire philosophy of business planning is based on customer satisfaction.

Therefore, instead of focus on the current problems the focus should be now on trying to anticipate the future and prepare the organisation for it. The crucial pivot in strategic planning is to gather first hand information about the plan, program and policy of the competitors, relating to their products, prices, target customers, marketing strategies, distribution networks, govt. support and so on so forth.

Strategic planning as a total concept of the whole business involving a framework and a process that guides its future. It is holistic in nature in the sense it deals with the whole organisation, differing from other business practices that usually look at one aspect of a company. The planning approach deals with the most fundamental and basic question, one that involves the very existence of the organisation. It is a continuous process with the changing external environment and the internal dynamics of the firm.

The definition of strategic planning indicates by their reference to mission, sustainable advantage etc. implicitly indicates the futuristic nature of strategic planning. As **Drucker [1997]** warns, "management has no choice but to anticipate the future to attempt to mould it to its advantage and to balance short range and long range goals". This statement implies strategic planning is indeed managing for the future of competing for the future.

In a family business, the family takes a special significance. It acts as a source of employees. It draws upon the company resources. The personal goals of these people therefore critically affect the direction of the company. They are the single most important influence upon the business plan. A family can significantly improve its chances of success by planning its future together, establishes clear policies governing its relationship with the business and defining the responsibility of family members.

The process of developing a family strategic plan helps families to approach their business in a unified way, rather than as a group of individuals that just happened to be related. The chances of misunderstanding are greatly reduced when the objectives and rules are clear and the rules are much likely to be adhered to if they are arrived at through consensus, rather than edict. Because of this, many successful business families find it useful to develop a strategic plan for the family. Such family planning allows the family to identify the goals of those involved. It formalises the family's commitment to the company's future and it helps shape the vision of that future, both for the business and the family.

Based on the experience of the author, the best way to understand strategic planning is to look at its characteristics as follows:

- It is a dynamic process: The firm operates in an environment which are constantly changing, because of which strategic decisions have to be made in light of how various external environment factors like suppliers, creditors, customers, competitors and govt. react or have an impact on the firm. Strategic planning has to be dynamic process in order to reflect these changes.
- It is a continuous process: The external environment has an impact on the firm. This environment being in a state of constant flux, strategic planning process has to be a continuous and ongoing process. Market updates reviews and relation of present strategy to the changing environment has to be undertaken constantly.
- Flexibility: The strategic planning process has to be flexible to accommodate changes in it, due to changes in the external environment.
- It is analytical: It involves the process of analysis of various factors, which are both external and internal to the firm. As **Ohame [1983]** has observed, "no proper business strategy can be built in fragmentary knowledge or analysis". It involves the management commitment to collect information about various factors which can affect the firm immediately or in near future, and relate it to the present form of the firm to analyse the various alternatives or strategies.

- It is creative: It is a creative process as it is dependent on the creativity and analytical judgement of the management team.
- Top management involvement: Strategic planning is related with several areas of operations of the organisation. Thus, it is necessary that these decisions be made with a perspective of understanding and anticipating the major implications and ramifications, and with the requisite authority to allocate resources for implementation of the decisions. It is only at the top management level that the overall perspective and authority exists. Hence top management involvement is imperative in the strategic planning process.
- Impact on long-term prosperity of firm: Strategic planning has a significant impact on the firm's future growth and prosperity for better or worse. This is because there is a long-term commitment to a particular strategic option with a certain product market configuration.
- It is future oriented in the fast changing competitive environment.
- Multi functional and multi business consequences: As the formulated strategic plan may have implication for several functional departments and strategic business unit (SBU), in terms of resources and responsibilities.
- Strategic planning leads to organisational change.
- Allocation of large amount of resources: Strategic planning requires commitment of the firm to activities over an extended period of time, which implies deployment of substantial resources. These resources in men, material, machines and money may have to procured from external resources or re-deployed from internally generated resources (surplus).
- Strategic planning is action oriented.
- Strategic planning is focused and deals with the whole firm by deciding where it will go in the future and how it will get there.

3.2.1 Need for strategic planning

Today's organisation operates in an environment, which is in a constant state of flux - a lot of uncertainty. With the changing world economic scenario, globalisation, increase threat from MNCs, liberalised economies of developing countries, new opportunities on global level, technological advancement, increased perception of customer needs, expanding market segments, shorter product life cycle etc, have justified the importance of strategic planning in the organisations.

Research studies based on the experience of companies and executives have indicated that strategic planning contributes positively to the performance of enterprises. Studies made by **Ansoff [1971]** and **Buzzel [1975]**, have revealed that companies that undertake strategic planning clearly outperform the non-planning companies in terms of profit, return on investment and EPS.

Investigations have revealed that strategic planning can isolate key factors in an industry and help companies plan strategies more effectively **[Malik et al., 1975]**. Executive viewpoint in the role of strategic planning was surveyed by **Ramanujan and Camillus [1987]**, which included the viewpoint of 200 executives of various U.S firms. 88.7% of the respondents stressed the need of strategic planning and were of the view that neglect of it could be detrimental to the organisation. 71% of the respondents reported improved performance of their firms after implementation of strategic planning in them.

Strategic planning enables the executives to provide the necessary direction for the enterprise, take advantage of the opportunities and at the same time minimise the risk or threats to the organisation.

With clear goals emerging from strategic planning, it enables the employees in providing future direction and managers have a clear perception of corporate goals and individual goals, which leads to better harmony and goal congruence. Executives who engage in formal strategic planning are likely to be more effective in achieving their objectives than those who do not.

3.2.2 Strategic planning theories

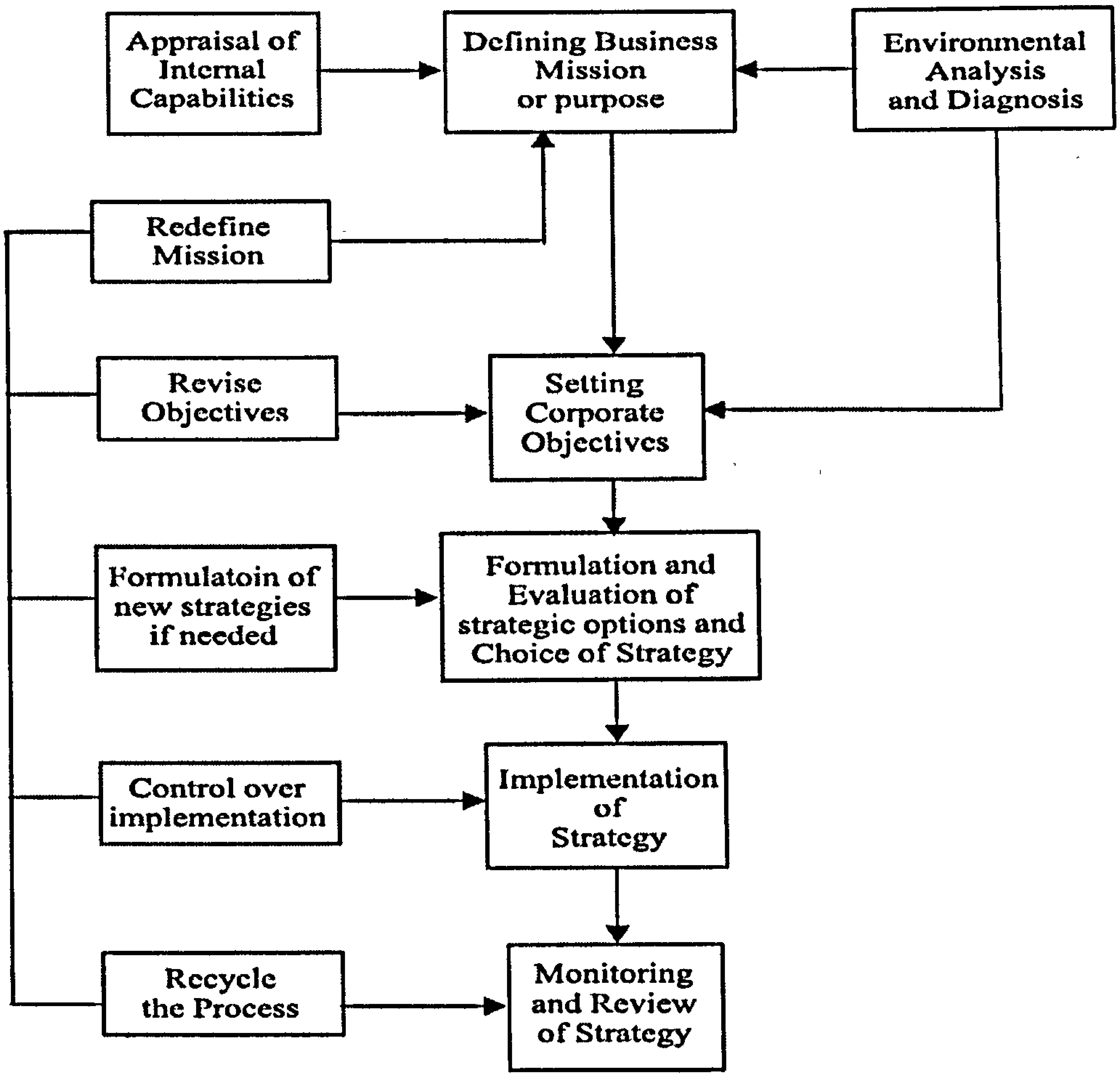
To begin the structured planning process, the most important question to be answered by the management team is about the vision of the company. This critical question gives the directional thought to the managers, which help them in planning for the organisation. Similarly, it helps in communicating to the employees the destination and the purpose of existence of the organisation. From this critical question and the decision taken in this regard by the management team, all the strategic plans flow. Many family businesses resist family business planning and even fail to develop a systematic framework for thinking about the future strategy of their families and businesses. A planning process to guide and co-ordinate both company and family action is critical. Firstly, a planning process will encourage the family to examine its values, needs and goals on a regular scheduled basis. Too often families fail to appreciate the critical role that their commitment plays in family business success and how that commitment can change. Family business mangers need to review and revise their business strategies constantly to meet increasingly dynamic marketplaces. Secondly, the development of an effective planning process will help the family focus on the business and create new strategies to revitalise the company and promote future growth over years and generations. Business families must appreciate and address business goals and needs.

3.2.3 Strategic planning methodology in a firm

The strategic planning process encompasses these plans, which together involve a number of steps. The three phases as shown in Figure 3.1 by **Singer and Donoho [1992]** are:

1. Strategy formulation
2. Strategy implementation
3. Strategy evaluation and control

Figure 3-1. Strategic Planning Process by **Singer and Donoho [1992]**



These phases consist of many sub steps. Broadly speaking the various steps involved in strategy planning process are:

1. Defining the business mission or purpose.
2. Analysis and diagnosis of the current and likely future environment, identifying opportunities and threats.
3. Appraisal of internal capabilities, existing and potential strength and weaknesses of the organisation.
4. Setting corporate objectives in broad terms subject to the realities of external environment and power relations, internal resources and values & of the executives.

5. Formulation of alternative strategies, evaluation of strategic options and choice of appropriate strategy.
6. Implementation of strategy by establishing the organisational structure, organisational hierarchy, administrative systems and planning and control mechanism.
7. Resource allocation, machine, material and money to the various strategic centres of the organisation.
8. Review of the strategy, monitoring the results.
9. Feedback of the result of the strategy implementation to corporate planners to evaluate the efficacy of the present strategy and for further development and planning of strategies.

3.2.4 Family Participation steps in the strategic planning process

The steps in the strategic planning process with regard to family participation include:

- Addressing the critical issues relating to family involvement with the business.
- Establishing a family council to provide a forum in which family members can discuss their views and concerns and that allows them to participate policymaking.
- Preparing a family mission statement that will detail why the family is committed to perpetuating the business.
- Working out a family vision or conceptual model that will outline how the family sees it and its business in the years ahead.
- Developing in writing a statement of the family's values and policies in other words family constitution.
- Developing key programs that will provide a systematic approach to such family activities as making decisions and resolving conflicts.
- Establishing objectives that specify steps for accomplishing the goals that the family has set.
- Monitoring the family's progress and maintaining regular communication through periodic meetings.

Similar to the strategic business planning process, the family strategic planning process begins with evaluating the current situation. This involves looking at the state of both the business and the family, including factors such as the current management and ownership structures, the family relationship with the company and the role of non-family employees. In the second stage, the family develops its policies and objectives starting with its long-term goals for the business as, will it remain a family company or the family intends to sell the company or go public. In the light of these long-term plans, short-term plans and policies are defined, covering critical areas of family-business interface. The most important policies are regarding the involvement of family members in the business, share ownership and management succession. Defining policies are followed by action plans. This will include the identification of family members responsible for implementing the plans and deciding how its implementation is to be monitored, controlled and evaluated.

Many family leaders feel that these planning formalities interfere with what should be a natural process. They feel a family plan should simple happen. They resist the idea of formal family planning because it is time consuming. It seems to involve too many unknowns and it may invite trouble by initiating discussion on sensitive matters. However, research by **Ward [1987]** suggests that developing a plan provides an opportunity to discuss family goals and business opportunities and it aids in formulating the family philosophy.

3.2.5 Strategy formulation process

The strategy formulation process includes the components discussed in the following sections.

3.2.5.1 Organisational mission

The first step in strategy formulation is the definition of organisational purpose of mission. It is a long-term view of what an organisation is striving to be in the near future. The identification of a mission is the basis of awareness of a sense of purpose. The competitive environment and the degree to which the firm mission fit its capabilities and the opportunities, which the environment offers **[Harvey and Evans, 1994]**.

Fred [1998] states: "a mission statement reveals the long term vision of an organisation in terms of what it wants to be and to whom it wants to serve. It describes an organisation purpose, customers, product or services, markets, philosophy and basic technology. It answers the question "what is our business?" A good answer to this question makes strategy formulation, strategy implementation and strategy evaluation activities much easier.

The mission of a business may be defined as the fundamental unique purpose that sets it apart from other firms. It defines the scope of operation of a firm, in terms of products, markets, technology etc.

Most of the mission statements usually attempt to answer several of the following questions **[Dess and Miller, 1996]**:

- What is our reason for being? What is our basic purpose?
- What is unique or distinctive about our organisation?
- What is likely to be different about our business 3 – 5 years in the future?
- Who are, who should be, our principal customers, clients, or key market segments?
- What are our principal products and services present and future?
- What are, or what should be our principal economic concerns.
- What are the basic beliefs, values, aspirations and philosophical priorities of the firm?

A review of 622 mission statements by **Graham and Havlick [1994]** has revealed that no two-mission statements have the same formula or tone. He suggests some of the essential features of mission statements that make them effective are:

- It should be clearly articulated and easy to understand so that values, purpose and goals of the organisation are clear to everybody in the firm.
- It should be relevant in terms of history, culture and shared values of the organisation.

- It should be current and not obsolete. As **Drucker [1985]** points out "very few definition of the purpose and mission of a business have anything like a life expectancy of thirty, let alone fifty years. To be good enough for ten years is probable all one can normally expect."
- It should be positive and inspiring.
- It should be unique and different from other firms.
- It should be enduring.
- It should target the Audience.

The mission statement sets the direction for the strategic planning process with the business environment being very dynamic, sooner or later even the most successful answer to the question what business we are in also becomes obsolete. Therefore it is not just sufficient of the company determines what is its business, at the same time it should ponder, what it will be and what likely changes are due to occur in the environment and how they would impact the firm.

As **Drucker [1997]** remarked, "the ultimate objective of strategic planning is to identify new and different businesses, technologies and markets which the company should try to create long-range. Indeed it should start with the question which of our present business should we abandon, which we should play down and which we should acquire and push the supply of new resources to?"

3.2.5.2 <u>Corporate objectives and goals</u>

Once the organisational mission has been determined, its objectives or the desired position or destination that it wishes to reach should be identified. They form the basis for the functioning of an organisation.

3.2.5.2.1 Objectives and Goals

Objectives may be defined as "the ends that the organisation seeks to achieve by its existence and operations" **[Drucker, 1990]**.

A goal is defined as "an intermediate result to be achieved by a certain time as part of the grand plan. A plan can therefore have many goals **[Harold, 1972]**.

According to **Ansoff [1984]**, an objective is a measure of efficiency of the resource conversion process. The objective consists of three elements. The particular attribute that is shown as a measure of efficiency, the yardstick or scale by which the attribute is measured and the goal the particular values on the scale.

Once the organisation mission has been determined, its objectives and goals or the desired position and destination that it wishes to reach are identified. They form the basis for the functioning of an organisation. Due to family involvement, the goals and objectives of a family business are likely to be quite different from the firm value maximisation goal assumed for publicly held non-family firms. **Singer and Donoho [1992]** believe that the family firm's goal could be family or business centered. Other researchers see the goals as changing through the interaction of the needs of the family and the firm (**[Danco, 1975]**, **[Davis and Taigiuris, 1989]**, **[McGivern, 1989]**). **Ward [1987]** proposed a three-stage development model of family business. In the next stage, the needs of family and business are consistent. The owner manager makes all the decisions. Although families are not necessarily monolithic units, at this stage of a family business development, research on the motivation and characteristics of the founder can be particularly useful in providing some indications of the goals of family enterprises **[Hollander and Elman, 1988]**. In the second stage, the owner manager remains in control, but the growth and development of the family's children are of primary importance to the family. Therefore, the goals of the family firms are likely to change, reflecting the greater importance of finding a place and securing a future for sons and daughters.

In the last stage, business and family needs can come into conflict. The business can become stagnant, in need of regeneration, the owner manager can become bored or retire and maintenance of family harmony can become the primary goal. Again, business goals can change because of immediate needs or desire to achieve the turn around in the firms' economic performance.

An indication of how a family's goals can differ and affect decision-making can be gleaned from certain ethnic studies. In studies of immigrant Chinese and African-American family businesses, researchers **Reynolds and Wong [1992]** found that succession is not a priority, because families view their firms as a means to prepare children for a professional career, not as a family legacy. It is unclear as to whether succession is a goal or a means to a goal. In an empirical study on the goals of family business by **Taguiri and Davis [1992]** found the following to be the most important goals:

- To have a company where employees can be happy, productive and proud.
- To provide financial security and benefits to the owner.
- To develop new quality products.
- To serve as a vehicle for personal growth, social advancement and autonomy.
- To promote good corporate citizenship.
- To provide job security.

It is interesting to note that none of these goals is concerned with the next generation.

Family business is more likely to have multiple, complex and changing goals rather than a singular simple and constant goal. Research that compares goals and manner in which they are formulated in family business and non-family firms is needed **[Sharma, 1997]**.

3.2.6 Strategy evaluation and control

Besides making strategic decisions and implementing them, an organisation must also set up appropriate administrative and operating mechanisms to control and evaluate its performance, with regard to its goals and objectives. If family businesses have goals, strategies, and structures that are different from those of non-family businesses, they are likely to need evaluation of performance differently. However, the literature tells us very little about whether strategic decisions and performance are evaluated and controlled differently in the family firm, or if such differences are justified. Articles by rationalists that address these issues argue for the separation of the family and the business, thus recommending that family firms use the same set of evaluation and control systems employed by non-family firms **[Levinson, 1974]**. Unfortunately we do not know the answers to certain vital strategic management questions as, whether there are differences in the in the types and use of strategic evaluation and control systems between high and low performing family business, whether the predominant systems similar or different from those used by non family business. How important are the differences if any? How do family members influence, design, and use of strategic evaluation and control systems? **[Sharma and Chua, 1997]**.

The writer after analysing the literature on family business has found that, immense amount of details regarding the family business structure, the problems, the conflict in it and management of conflict are available. However, none of them discusses how they reflect upon the strategic planning process in the family owned business. Moreover, the literature recognises the family and business are two over lapping subsets but has not come to an understanding about the trade off involved in dealing with the needs of the two sub sets.

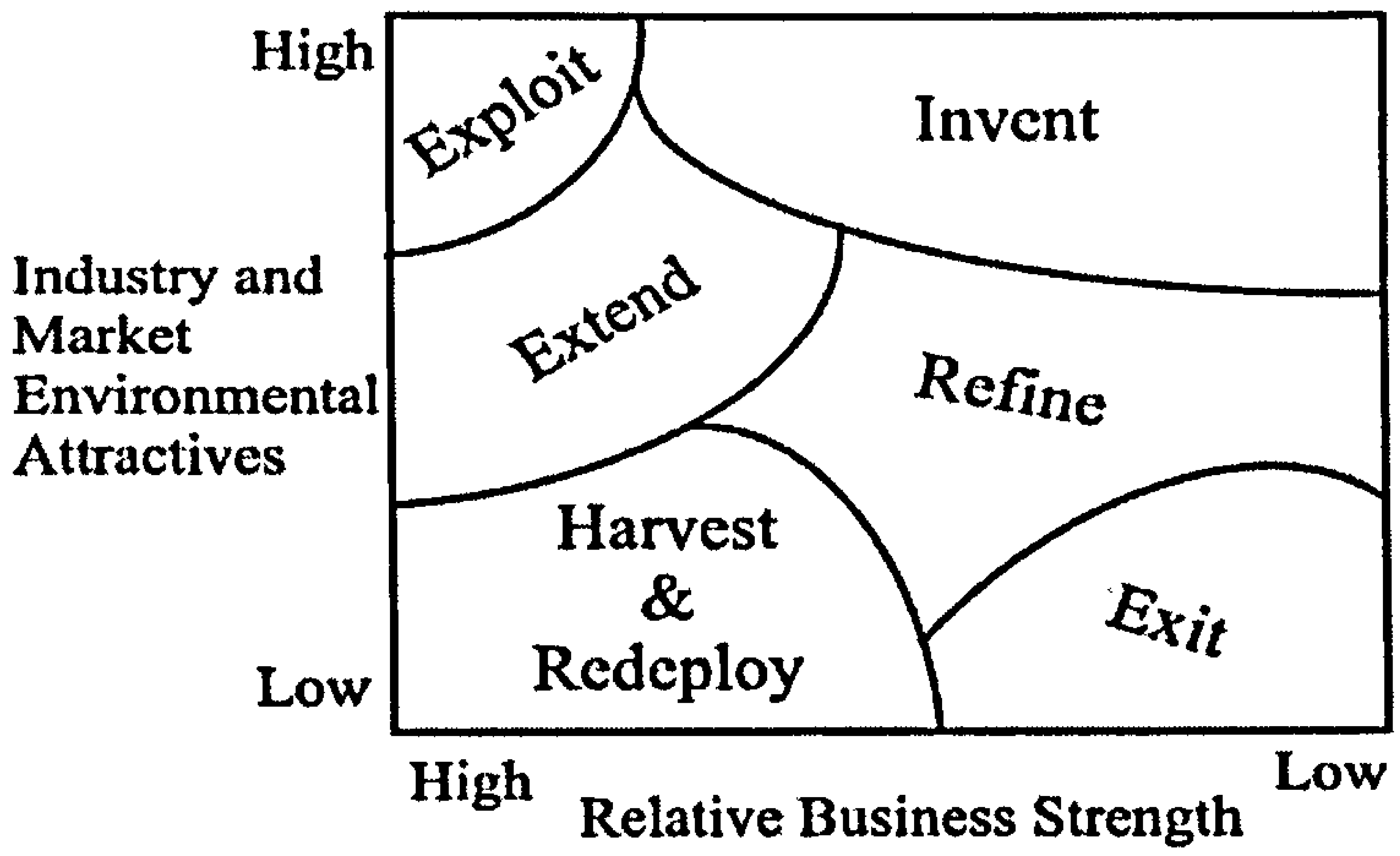
3.3 Strategic formulation and choice

After the strategic family plans formulation and the business plan that includes SWOT analysis, corporate planners formulate a strategic family business plan from the options available to them. Regardless of the process the choice of strategy from the results of SWOT analysis in a family business, will necessarily reflect whether formally or in formally, considerations such as:

- The family's commitment to the company's future.
- The family's vision of future.
- The relative attractiveness of the business environment.
- The relative strength of the business.

Ward [1987] has broadly proposed twenty-two alternatives in strategies that could be adopted by the family firm based on the industry's attractiveness and the internal capabilities of the family firm. These twenty-two alternatives are evolved from six categories that are also called as the grand strategies. Figure 3.2 gives the categories of future strategic decisions as discussed individually in the next sections.

Figure 3-2. Categories of future strategic decisions. (taken from Ward [1987])



3.3.1 Exploit strategies

This strategy undertaken when the business is in excellent shape and so is the industry in which it competes.

3.3.2 Extend current approaches

This strategy undertakes expanding into new markets. Take the excellent strengths of the business and pursue new types of customers, enter new territories, or look for new market segments.

3.3.3 Refine strategies

This strategy confuses the competition. Pursue the strategies that keep the competitors off base by unpredictable changing the rules of the game. This might be a matter of altering the industry's seasonal pattern of promotional expenditures, offering new credit terms, or providing a new package of related services, such as training or computer programs.

3.3.4 Harvest company and re-deploy fund

This strategy exploits good market segments that are faster growing, larger or have other attractive features. Even mature markets boast pockets of high activity, ranging from discount stores to customers overseas. A strong company can identify these segments and decide to enter them aggressively.

3.3.5 Divest and exit

Sell the family business. A business without good market opportunities and without the strength to capitalise on new ventures is obviously trapped. It can only erode the family's and the company's capital. As a result, the only logical strategy is to prevent further erosion.

For successful strategy implementation, family business need to effectively handle two key sets of relationships that generally do not affect the non-family businesses: those among family members and those between family members and professional managers **[Horton, 1986]**.

In implementing strategy, a family firm has the choice of using family and non-family members. **Lansberg [1983]** advises that all relatives to be given opportunities to learn, but only the most competent should be taken into the firm. Even the studies by **Ward [1987]** showed in 200 firms that the results of strategy implementation were better in cases the business family was involved. In general, research has found that family members are more productive than non-family members **[Rosenbeatt, De Mik, Anderson and Thomson, 1985]**.

3.4 Environmental analysis

Business environment consist of the totality of all the factors, which are external to it and largely beyond the control of individual business firms. Environmental analysis is the process the corporate planners use to analyse the factors which are external to the organisation, which have an impact on the performance of the organisation, now or in near future. In other words, environmental scanning consists of identifying and analysing environmental factors individually and collectively to determine their potential effect on the organisation and the consequent problems and opportunities **[Glueck, 1976]**.

The fortunes of business enterprises are known to have been determined by changes in the external environment. 57 out of the 100 corporations that dominated U.S. industry in 1918 had within the next 50 years gone out of business or suffered in terms of market share. In most of cases, the failure was found due to the inability of the firm to analyse and adapt to the change in the environment **Miller [1971]**.

A study by **Miller [1971]** showed that U.S. companies, which had identified themselves with the rapidly growing sectors of the economy, succeeded in achieving high growth rate.

One of the major causes of corporate decline is that created by a mismatch between the firm and its environment. Thus, it is imperative not only to understand the nature of environment and its dynamics but also to be aware of those environmental variables to which the firm is most sensitive.

In trying to understand the environment managers, face difficult problems. First, the environment encapsulates many different influences. Listing all conceivable environmental influences may be possible, but it may not be much use because no overall picture emerges of important influences on the organisation.

The second difficulty is that of uncertainty, managers typically claim that the pace of technological change and the speed of global communication mean more and faster change now than ever before **[Mintzberg, 1994]**. While it is important to try to understand future external influences on an organisation but it is very difficult to do. Third if must be realised the managers are no different from other individuals in the way they cope with complexity. They tend to simplify such complexities by focusing on aspects of environment, which perhaps have been historically important **[Johnson, 1993]**.

3.4.1 Framework of environmental analysis

The framework of environmental analysis is provided in a series of steps as explained by **Johnson [1997]**.

3.4.2 Steps of environmental analysis

1. It is useful to take an initial view of the nature of the organisation's environment in terms of how uncertain it is. Is it relatively static or does it show sign of change and in what ways? Is it simple or complex to apprehend. This helps in deciding what focus the rest of the analysis is to take.
2. The second step is auditing of environmental influences. Here the aim is to identify which of the many different macro environmental influences are likely to affect the organisations development or performance. It will be helpful to construct pictures or scenarios of possible futures to consider the extent to which strategies might need to change.
3. The third step moves the focus more towards an explicit consideration of the immediate environment of the organisation. Michael Porters five-force model identifies the key forces at work in the competitive environment. From these steps, a clear view would emerge of those factors or important developments taking place around the organisation.
4. The fourth step is to analyse the organisations competitive position that is how it stands in relation to those with other organisations competing for the same resources or customers as it. This can be done by strategic group analysis, analysis of market segments, and competitor analysis and Attractiveness analysis in relation to markets.

3.4.3 Environmental factors categorisation

Aspects of environmental factors relevant to any industrial or trading concern may involve varying dimensions depending on the size of the enterprise, its mission and objectives. Analysts such as **Thomas [1993]**, and **Glueck and Jauch [1984]** have categorised environmental factors as shown in Table 3.1 (Adapted from **[Thomas 1972]**).

Table 3.1. Models of Environmental Analysis Categories of Environmental Factors

Phillip Thomas	Glueck and Jauch	McCarthy, Minichiello and Curran
Political conditions	Socio-economic sector Economic factors Demographic factors Geographic factors Social factors	Technological forces
Social conditions	Technological sector	Socio-cultural forces
Economic conditions	Supplier sector	Legal / Governmental factors
Legal / regulatory conditions	Competitor sector	Economic factors
Business conditions	Government sector	Industry structure and Practices - Competition

These factors may be broadly divided into two sub categories:

- The remote environment or the macro environment: This consists of those forces that originate beyond and usually irrespective of any single firm operating situation. The remote environment presents opportunities, threats, and constrains for a firm. A reactive approach of strategic planning is required for these factors.
- The operating or the competitive environment: This makes up the competitive situation and exposes the firm to the challenges of various factors, which have a direct impact on the firm. Prominent among these are the competitive position of firm, customer profile, suppliers, creditors and industry reputation.

3.4.3.1 Macro environment

As stated earlier, a company operates in a large macro environment; the forces of which shape the opportunities and pose threat to the company. The macro forces are generally more uncontrollable. Some of the factors in the macro environment are:

3.4.3.2 Economic factors

The overall state of economy greatly influences the strategies and performance of various industries and competitors within an industry. To anticipate change in the economic environment, which might have a bearing on the progress of trade and industry in the future needs information processing on the following aspects:

- The existing state of economy and the stages of business cycle.
- The rate of growth of GNP and per capita income at current and constant prices.
- Rate savings and investment.
- Volume of imports and exports of different items.
- Balance of payments and changes in foreign exchange reserves.
- Agriculture and industrial production trends.
- Changes in distribution of income and wealth.
- Expansion of transportation and communication facilities.
- Government budgetary allocations.
- Public debt both external and internal.

3.4.3.2.1 Social Factors

Social environment concerns the values, attitude, opinion, belief and lifestyle of the people in the society and those in a firm's external environment, as developed from their cultural, religious, educational, ecological, demographic and ethnic conditioning **[Bhatacharya, 1998]**. With the change in social attitude, the demand for various goods and articles among the people in the society automatically changes. One of the most significant social changes in the recent years was the entry of woman in all spheres of activities, including Army and Pilots. Some of the elements in social factors to be closely monitored by the business houses area:

- Population density.
- Inter state migration.
- Educational opportunities.
- Change in life-style.
- Age of marriage in men and women.
- Values and attitudes of people towards marriage and family size.

- Women's participation in the work force.
- Changing consumer behaviour.
- Chances in consumer taste etc.

The role of social factor in environmental scanning has been highlighted more due to increase corporate social responsibilities and involvement in social issues like preserving ecological balance, control of environmental pollution and protection of consumer interest.

3.4.3.3 Political and government factors

Political and govt. environment has close relationship with the economic system and economic policy of a country. For example, the communist countries had a centrally planned economic system. In most countries apart from those laws that control investment and related matters there are a number of laws, which regulate the conduct of business, such as standards of product, packaging, promotion etc.

In many countries, regulations to protect consumer interest have become stronger. Some countries even prohibit the marketing of certain products. Several European countries restrain the use of children in the commercial advertisements. In many countries, advertisement of alcohol is prohibited. In Germany product comparison advertisements and superlatives as best or excellent are not allowed **[Cherulinum, 1996]**. **Rubock [1971]** has developed a conceptual framework for identifying and assessing political risks, which may affect business decisions. They are:

- Competing political ideologies of political parties.
- Vested interest in local business groups.
- Electro majority of the party in power.
- Internal dissension in the ruling party.
- Insurgencies in boarder areas.
- International power alignments & alliances.
- Foreign economic policy of government.
- Strength of parliamentary opposition party.
- Import restrictions.

- Differential taxes & exemptions.
- Capital issues control.
- Reservation of industrial fields for Govt. business.
- Control over expansion of existing capacity and creation of fresh capacity.
- Foreign exchange control including the flow of foreign capital.

3.4.3.3.1 Technology factors

Keeping up with the tempo of technological changes is a major concern of the executives of modern enterprises all over the world. The value of technological forecasting in the strategic planning is quite apparent in the case of industries using sophisticated technologies, like chemicals, electronics, aerospace, oil exploration, communications, power and energy.

The process of technological change may be divided into three stages:

1. Invention – The creation of a new product or process.
2. Innovation – Introduction of that process or product into use.
3. Diffusion – Spread of product or process beyond the first user.

Some of the elements in this factor to be observed keenly by firms as mentioned by **Wooton and Horne [1997]** are:

- Communication methods and systems, which affect the customers, supplier and employees.
- Implications of new technology for training.
- Research and Development in the industry.
- Obsolete duration of the current equipment.
- Implication of the business if needed as security for borrowings.

3.4.3.3.2 Market condition factors

Product markets in different industries may be characterised by monopoly, oligopoly, monopolistic competition etc. The price structure of the product in the market is also governed by the characteristics of the market structure. Introduction of new products that may affect the life cycle of current products, their market demand and the relative scale of entry of new competition in the existing market are vital factors that planners must consider in this aspect of environmental scanning.

Some of the questions the planners should try to answer while scanning for the market factors as mentioned by **Wooton and Horne [1997]** are as follows:

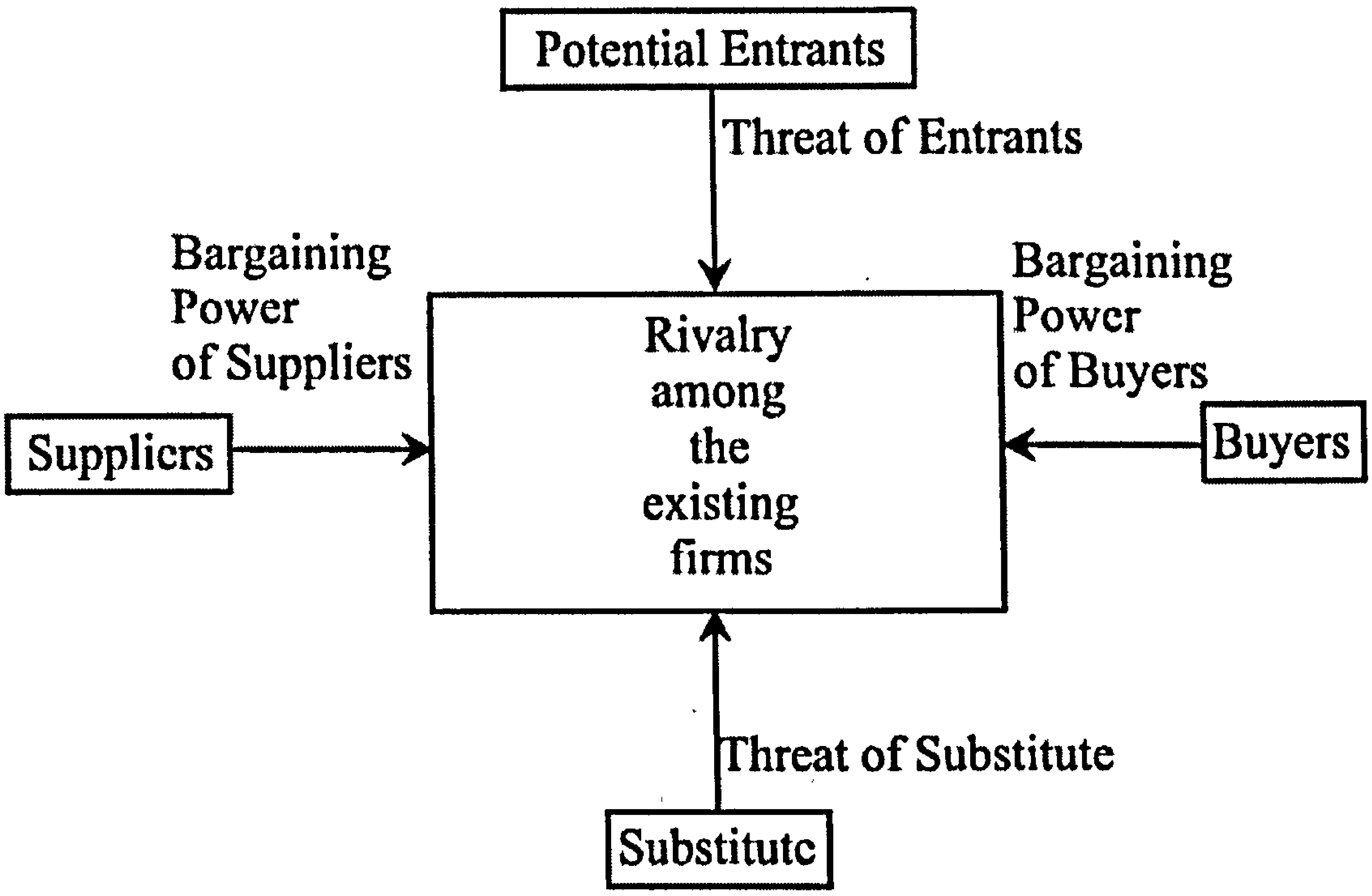
- How large is the market? How many competitors are there?
- Would the effect of a small contraction be severe?
- Is a great deal of capital required to enter this market? How easy is it for a new entrant to find this capital?
- Does your business need particular channels of distribution? If so are they vulnerable to become controlled by a competitor or by another organisation which could hold you to ransom.
- Does your organisation provide goods and services that are unique?
- Do you have patents, copyrights and licenses?
- Are you dependent on few suppliers?
- Are there alternative source of supply?
- To what degree are your services or products substitutable?
- How do your competitors get about getting business?
- Do your competitors seem to take a long or a short-term view?
- Do you think they are aiming to be the market leaders?
- What are your competitors best at and worst at?
- Are your competitors quick to sense your customers changing needs and respond them?

3.4.3.4 Micro environment

The microenvironment consists of the actors in the company's immediate environment **[Kotler, 1976]** that affects the performance of the company. These include the suppliers, buyers, customers, and market intermediaries. They have an intimate link with the firm. This environment is also called the competitive environment.

Porter (1980) five-force model in his book the competitive strategy discusses the effect of the elements of competitive environment on the firm. The rationale behind this model is that industry profitability is not determined by what the product looks like, nor whether it embodies high or low technology, but it is determined by the structure of the industry. In addition to the macro environment, the manager must consider the competitive environment also referred as microenvironment. The profitability of the firm and the nature of competition in the industry are more directly influenced by developments in the competitive environment. **Porter's (1980)** five-force model, as shown in Figure 3.3, although designed primarily with commercial organisation in mind. It is of value to most organisations.

Figure 3-3. Porter's Five-Force Model



Porter's five-force model has been the most commonly utilised analytical tool for examining the competitive environment. It describes the competitive environment in terms of five basic competitive forces.

1. The threat of new entrants in the market.
2. The bargaining power of the suppliers.
3. The bargaining power of the customers.
4. The threat of substitute products.

5. The intensity of rivalry among the competing firms.

Together, these forces determine the extent of competition as well as the profit potential of an industry including the following key factors:

1. Threat of new entrants in the market
2. Competitive rivalry
3. Threat of substitutes
4. Power of buyers
5. Power of Suppliers:

If all the five forces were strong, industry profitability would be expected to be low regardless of the products/services being produced. Conversely weak forces permit higher prices and above average industry profitability. Firms can influence the five forces through their strategies they pursue.

3.5 Internal and external appraisal of the environment

Internal and external resource analyses are discussed in this section.

3.5.1 Internal resource analysis

Analysis of corporate resources and appraisal of the strategic advantages and disadvantages constitute an important step in strategy formulation. It may also be called as resource audit **[Staudt, 1954]**. Awareness of a corporate strength and weakness can be possible ones if there is a systematic analysis of the factors reflecting strategic advantages and disadvantages. Indeed the basic purpose of analyzing internal resources and capabilities is capable of doing considering what that company is capable of doing considering the external environment in which it operates **[McCarthy, 1975]**.

Management theorist like **Ansoff [1956]**, **Cordiner [1964]**, **Drucker [1964]** and **Leaviff [1965]** have suggested that a systematic objective appraised of capabilities should precede all other activities for a company which desires to grow. Strategic advantage analysis is the process by which strategist examine a firm resources and capabilities in the key functional areas to determine where the firm has significant strengths and weakness so that it can exploit the opportunities and meet the threats in the environment **[Glueck, 1984]**. Some of the major factors or attributes to be studied in a firm in order to analyse its strength and weakness, a model has been given by **Wooton and Horne [1997]**, which is called the 12 M model, which analysis the various critical factors in various functional departments of an organisation.

The 12 M's are the critical factors on which the organisations internal capabilities can be judged and are shown in Table 3.1 as described by **Wootton and Horne [1997].**

Table 3-1. Internal Appraisal of firms

What is changing in the areas of:	What are the likely problems and opportunities that will impact on your organisation in the:			
	Medium term		Long term	
	Problem	Opportunity	Problem	Opportunity
Market reputation				
Money				
Manpower				
Machines				
Materials				
Mental agility				
Management				
Morale				
Mores				
Monitoring				
Motivation				
Movement				

3.5.2 Internal appraisal of family business

During the internal resource analysis, while asking managers about the strengths and weaknesses of their business often elicits only broad positive statement **[Stevenson,** 1976]. **Ward [1987]** suggests a few questions that would help in suggesting plans for improving weaknesses and exploiting strengths.

- What are our functional strengths and weaknesses? Are we strong in marketing, weak in purchasing, strong in operations, weak in date processing what strengths and weaknesses do we note when we consider our skills, talents and resources?
- Can we learn about our strengths and weaknesses by comparing the discrepancies between our past goals and our actual achievements? Do we really fall short of our goal? Or do we usually exceed them? In what ways do we exceed them or fall short? Why?
- What have we done that we are most proud of served customer well, gained new accounts, improved quality and what we can learn from these achievements?
- What can we learn about our strengths and weaknesses by examining our most profitable and least profitable accounts? Analysing our most profitable customers should reveal our relative strengths, while examining our least profitable customers should expose some of our weaknesses.
- What can we learn about our employees? What is their typical education and background? How long do they on average stay with the company? Do we tend to loose our best employees? Does the company fire many of them?
- Are our competitor's current advantages strong? Are they sustainable?
- Are our current advantages strong? Are they sustainable?

The diagnosis of a firm's strength and weakness can be fruitful only if the environmental factors and market conditions are considered along with the internal capabilities. This approach essentially involves matching of internal capabilities with the environmental opportunities and threats known as SWOT (Strength Weakness Opportunities and Threats). This analysis answers the following questions:

- How attractive is the environment?
- How healthy is the industry?
- How worthwhile is the market?

3.5.3 The strength of a company

There are various ways of measuring company strengths as discussed in the following sections.

3.5.3.1 SWOT analysis

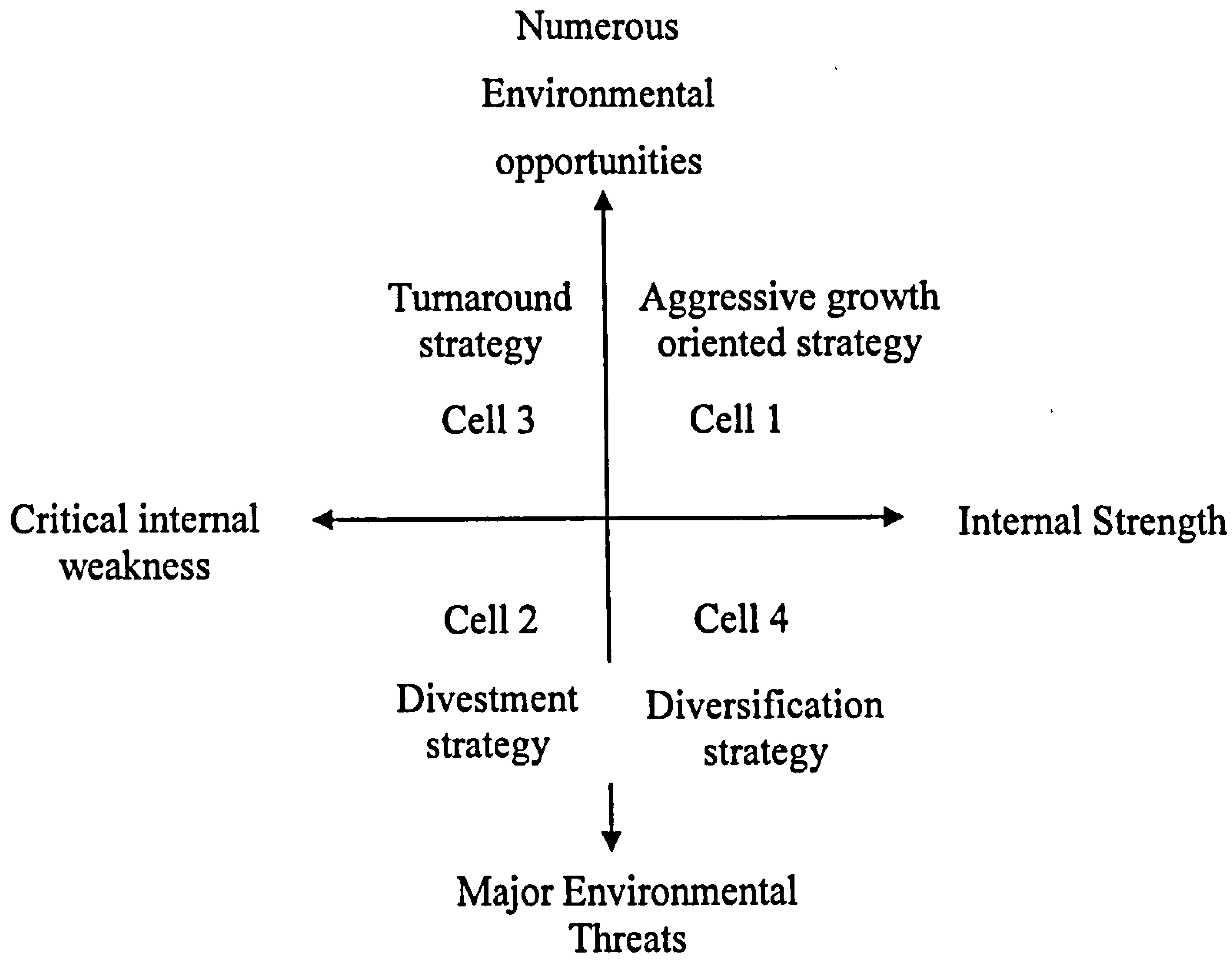
The diagnosis of a firm's strength and weakness can be fruitful only if the environmental factors and market conditions are considered along with the internal capabilities. This approach essentially involves matching of the internal capabilities with the environmental opportunities and threat known as SWOT. In a way, SWOT analysis is matching of Table 3.1and Table 3.2 to arrive at Table 3.3. The basic objective of SWOT analysis is to provide a framework to reflect on the firm's ability to overcome barriers or threats and avail the opportunities emerging in the environment.

Matching strength and weakness with opportunities and threat requires that a firm should direct its strength towards exploiting opportunities and blocking threats while minimizing exposure to its weakness at the same time. Thus strategies, which are good at matching strengths and opportunities, can be called exploitative or developmental strategy. Those, which direct strengths, are used to repair weaknesses; they may be called remedial strategies. SWOT analysis provides the basis or a comprehensive approach to strategy.

3.5.3.2 Strategy approach based on SWOT analysis

This is illustrated by **Ohmae [1982]** in Figure 3.4.

Figure 3-4. SWOT Analyses



Cell 1 has the firm in a situation of numerous environmental opportunities with a matching profile of internal strengths. The firm is in a most advantageous position and it should pursue aggressive growth strategies.

On the contrary, Cell 2 indicates the firm in a precarious position with critical internal weaknesses and major environmental threats. The firms in this situation have no option but to quit by divesting and take up defensive strategies.

In Cell 3, the firm has critical internal weakness with major environmental opportunities, in such situation the firm should try to enforce turn around strategies by way of retrenchment, or divesting in losing business and employ the resources in the business, which are in either the growth or maturity state.

In Cell 4, where the firm has substantial internal strength with major environmental threats, it should try to block the threats bared on their strength. The best options for firms in this situation is to diversity into related or unrelated business and survive based on these experience in earlier business and the formidable internal strengths. Thus, SWOT analysis helps in generating the basic or the grand strategies of a firm. Internal resource analysis and diagnosis should normally lead to the building up of competencies that would be of strategic advantage in a competitive market. According to **Ohmae [1982]**, the firm should use the analysis of SWOT to develop competitive advantage. He suggested four approaches.

1. Intensify functional differentiation: By readjusting resource allocation to strengthen certain functional areas where there are key factors of success, which can lead to developing of distinct capabilities in particular areas;
2. Avoid head on competition: An alternative approach may be to use the company's relative superiority in some activities and exploit competitor weakness.
3. Aggressive initiative: Where the competitors have developed key factors of success to their advantage, it may be necessary to adapt an innovative approach to upset their advantages. An aggressive innovative approach requires that executives should challenge the prevailing modes of doing business and create new success factors to gain distinctive advantage.
4. Maximise user benefit: Another approach to gaining competitive advantage lies in developing new markets or new products with a view to satisfy distinctive customer needs. This approach also called as flanking attack with a segmental approach in marketing. Which involves identifying uncovered market needs not adequately served by the existing products, either by going to new markets or by developing new uses of the existing products.

3.6 Models for strategic planning for family business

Family business planning has traditionally cantered on two inner-estate planning and succession. These goals are far too limited for today's family firms. The business families want to turn the business into not only a tool for profit, but also one for self-expression, innovation and legacy. In a family business, the family commitment and the business strategic potential influence the family investment decision.

Strategic planning techniques are useful tools for helping to develop a long-term approach to utilizing business capabilities and market opportunities. Unfortunately, traditionally strategic planning models and tools are designed to focus exclusively on the business and its needs. They do not address family challenges that make family business unique. The expanded scope of strategic planning in family business requires a very different planning framework

3.6.1 The three dimensional development model

The most outstanding family business development model was developed by **Gersick et-al. [1997]** and is based on the two-circle model by **Beckhard [1983]** and the three-circle model by **Taquiri and Davis [1982].**

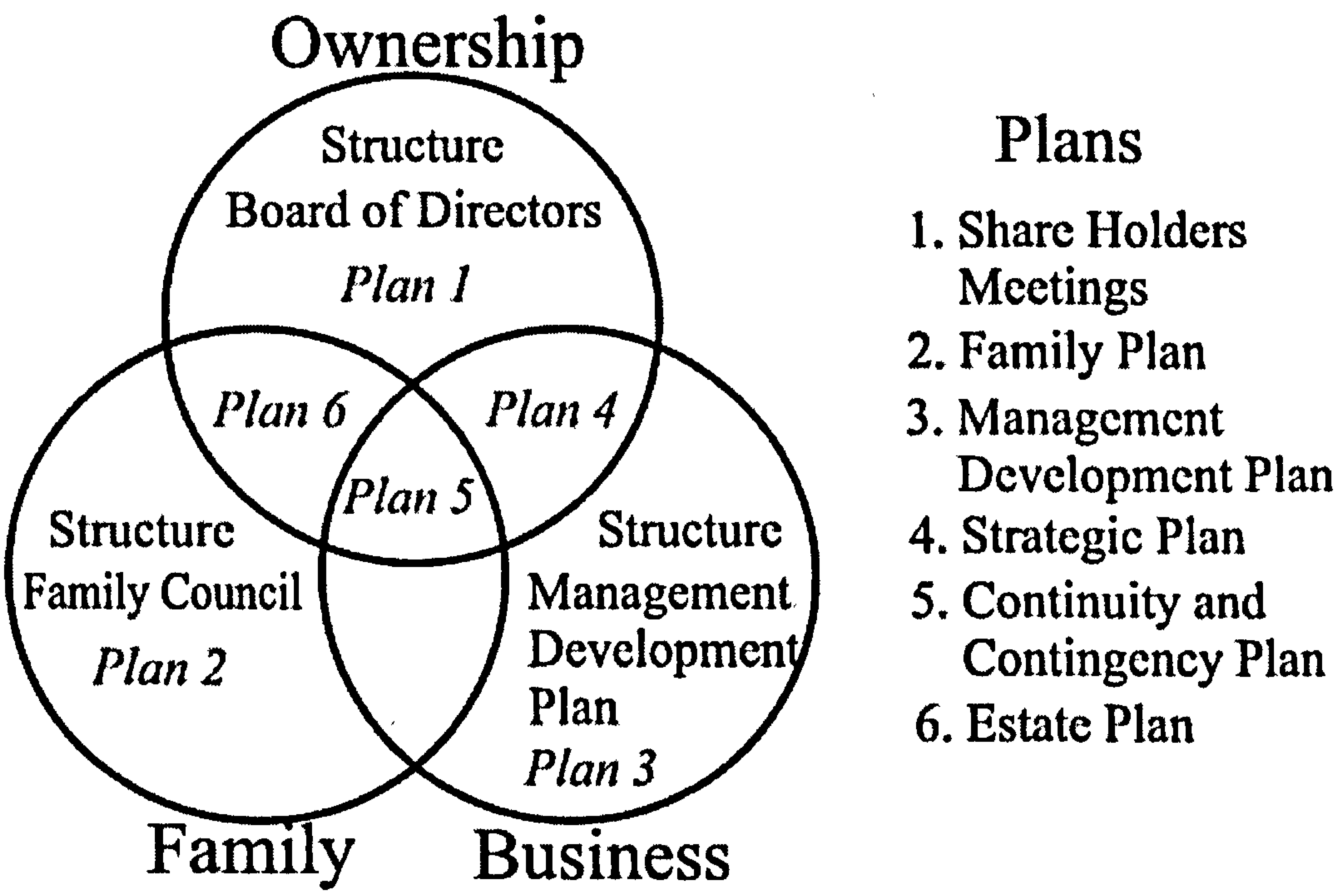
The two-circle model considers that the family business is actually made of two overlapping subsystem: the family and the business. Each of these two circles has its own norms, membership rules, value structures and organisational structures. Problems arise because the same individual has to fulfil obligations in both the circles. The owner founder has to play the role of a parent as well of a professional manager. In addition, the business itself has to operate according to sound business practices and principles, while at the same time meeting the family need for employment, identify and income. **Taquiri and Davis [1982]** elaborated the two-circle model with their work at Harvard in the early 1980s. They argued that a more accurate portrayal of the full range of family firms would need to make a critical distinction between the ownership and management subsystem within the business circles. That is some individuals are owners but not involved in the operation of the business, others are managers but do not control shares. As a result, the three-circle model emerged as shown in Figure 3.5.

3.6.1.1 <u>Critique on the three dimensional development model</u>

The three-circle model describes the family business system as three independent but overlapping subsystems. They are business, ownership and family. Any individual in the family business can be placed in one of the seven sectors that are formed by the overlapping circles of the subsystem.

The three-circle model can create a snapshot of any family business system of a particular time. However, many of problems and dilemmas a family firm faces are caused by the passage of time. They involve changes in the organisation, in the family and in the distribution of ownership. The family business also changes as individuals move across the boundaries in the system. The person's movement from one sector to another, such as from family member to family member-employee or from employee to employee-owner can stimulate a reaction in the entire system.

*Figure 3-5 Three-Circle Model by **Taquiri and Davis [1982]***



The result of adding development over time to the three circles is a three-dimensional development model of family business. For each of three subsystems, the ownership, the family and the business three is a separate development dimension. These developmental progressions of each subsystem influence each other, but they are also independent. Each part changes at its own pace and according to its own sequences.

Taken together as three axes of ownership, family and business development, the model depict a three dimensional space. Every family business has progressed to some point on the ownership developmental axis, some point on the business developmental axis. The enterprise takes on a particular character defined by these three development points. As the family business moves to a new stage on any of the dimensions, it takes a new shape, with new characteristics.

3.6.2 The four-factor model

The four-factor model has been described by **Stavrou [1998]**. The involvement of offspring in their parents' firms can significantly affect the firm's future. The conceptual model that explains the decision process involves four factors namely: family, business, personal, and market. The family factor involves behaviour resulting primarily from being part of a family participating in its dynamics, values, relationships, needs and desires. The business factor comprises behaviour related to interest in the business operations and practices. The personal factor pertains to behaviour that results from individual needs, goals, skills and abilities. The market factor relates to behaviour regarding employment opportunities in the business community.

Careful management planning attracts new leaders who help regenerate the firm and bring in new ideas. Decisions about the role of the next generation tend to be emotionally loaded and therefore avoided by the majority of family businesses. From the perspective of the heirs, that decision is part of a long-term process that starts early in their lives. The first level is called pre-entry involves offspring in volunteer works, family discussions or part-time job. The second level involves full-time employment in a managerial position in their business. The third level involves appointment of offspring to the leadership roles and responsibilities of their parents. Heirs can demonstrate the full potential of their management and leadership skills during the second and third level of involvement

Early interactions between parents and children lead to needs within the child that can affect later occupational choices. Family values and traditions have the greatest impact when young adults make their initial vocational choices. First born and only child is more likely to join the family firm because they conform to the wishes of their parents and copy their parents' behaviour. Daughter even first born is not always having the option to work in the family business. This situation maybe related to gender-biased notions as girls are raised to cook, sew and decorate the home, whereas the boys are raised to become the breadwinners. Offspring's involvement to join in the family business can be affected in many different ways including:

- When they do not feel they have a choice about their level of involvement in the business.

- When they think they are not wanted in the family business because of the parents' failure to communicate.
- When parents pressure their offspring, even those who do not possess the necessary skills to join the family firm.
- When offspring is concerned about meeting family expectations or having conflicts with other family members.

A desire to join the family business comes from an interest in the firm's products, markets, operations, and strategies. Factors contribute to an atmosphere that does not welcome changes are when the opinion of the offspring is ignored. Parent-owners often lack confidence in the ability of their offspring to run the business and they keep company secrets and have difficulty delegating responsibilities from their offspring and in turn lack of professionalism create uncertainty to the firm's future, driving well qualified offspring from the family business. Some offspring may see the need to professionalism the business and create effective system as an enticing challenge. The intentions of young adults to join and take over the family business maybe influence by their potential decision making power. Sharing decisions provides a forum for the older generation to impart its business philosophies and the new generation to learn about leadership of the firm. Shared decision-making should begin when offspring are growing up, not when they are about to take over the company.

An appropriate and satisfactory occupational choice can be reached when a person considers his capabilities, interests, and goals. Offspring choose to work first outside the family firm to discover their interests as well as gaining credibility and self-confidence in their abilities. Working outside the family firm gives potential successors insight into the difference between working for someone and being one's own boss. Outside experience gives offspring new strategies, adding formal management systems and new management teams in the business. Competencies, interest and personal fulfilment are reasons for joining or not in the family firm. Keeping the firm in the family is a matter of personal pride and symbolises power in the community. Taking control of the firm may only be used as a temporary platform for future career moves. The anticipation of wealth can be irresistible lure, especially when offspring have been raised in a luxurious lifestyle.

Market conditions, such as the direction toward globalisation of the workplace, increased specialisation of jobs, creation of economic market groups like the European Union, the transformation of Eastern Europe, the collapse of the Soviet Union, a continuous increase in competition, and the economic expansion of Asian countries, have an impact on the employment and career plans of young family members. Some offspring join family business to secure a job during unpredictable times. Offspring involvement in or outside family business may be significantly influenced by other employment opportunities available to them in the market place. A growing industry can provide diverse opportunities for career development and company expansion. A mature industry with few opportunities for growth or diversification may be less worthwhile in terms of an investment in time and energy.

3.6.2.1 Critique on the four-factor model

This describes the handling of offspring involvement in the firm and eventually succession. It provides a comprehensive method for classifying the issues that offspring might consider when deciding on their involvement in the family business. It also frames the crucial period during which next-generation family members often reach an initial decision.

It mainly concentrates on the succession planning. The model does not describe the critical factors that govern the dynamics of the family business firms, and the factors that shape the strategic planning process of these firms. The model is a descriptive analysis of sibling rivalry, the major dimensions of the family businesses and the approach towards the succession planning in such firms.

The model does not describe the time frame of the planning process nor the people who play a role in the strategic planning process of the family firms. The model does not describe in the detail, the affect of various dimensions of a family business such as the personal dimension, family dimension and the business dimension on the strategic planning process of the family business units.

The model fails to describe the balance that is required to be achieved among the various dimensions of family business, during the strategic planning process and in its routine operations. The model also does not have any pre assessment tools prior to its application, the criteria for its application to a particular family owned business. The model also does not recognise the division of organisations as family oriented or business oriented as described by other authors in the literature. The model also does not describe in the detail the various steps to be adopted during the implementation of the model in a family owned business.

3.6.3 The three stage development model

The three-stage development model is described by **Sharma, James, Chrisman, Jess and Chua [1997]**. The needs of the business and the family are consistent; the owner-manager makes all decisions. Research on the motivations and characteristics of the founder can be particularly useful in providing some indication of the goals of family enterprises, except that the entrepreneurship literature concentrates on the early life of the firm and the family business literature deals with a firm in its later stages, especially when succession is imminent.

The owner-manager remains in control, but the growth and development of the family's children are of primary importance to the family. The goals of the family are likely to change, reflecting the greater importance of finding a place and securing a future for sons and daughters.

Business and family needs can come into conflict. The business can become stagnant, in need of regeneration; the owner-manager can become bored or retire; and maintenance of family harmony can become the primary family goal. Business goals can change because of family needs or a desire to achieve a turnaround in the firm's economic performance. The goals of a family business is found to be: to have a company where employees can be happy, productive and proud; to provide financial security and benefits for the owner; to develop new quality products; to serve as a vehicle for personal growth, social advancement, and autonomy; to promote good corporate citizenship; and to provide job security.

3.6.3.1 Critique on the three-stage development model

One of the main drawbacks of this model is that it describes the developmental stages of a family business, or the life cycle of the family business and the type of conflicts and threats it can face in various stages. The model does not describe the major forces that shape the dynamic and the strategic planning process of family owned firms. The model only deals with the individual needs of the families at various stages of growth and how the family business plan at various stages of growth for the development of family. The model does not describe the time frame required for the planning process of the family and business and neither does it describe if both the planning processes are done simultaneously. The model also does not show the various family organisational units such as family councils and family constitution role in the dynamics of family business organisations and the strategic planning process in such organisations.

3.6.4 The 6 Cs Family Code Model

The 6 Cs Family Code model is described by **Ward [1990]**. The family that works hard to develop family harmony and strength is following a central core of philosophy, a mutual understanding and family strength – a family code, which is called the 6 C's.

Liquidity is essential for business growth and unexpected family needs. The model presumes all [parties] profit under the profit motive. While the author list "cash" first to not underestimate its importance, it is really the result of the other C's.

Good communications are essential. We promise each and every family member an equal voice, irrespective of age. We do not need to vote. Those who are quiet are encouraged, even asked to comment. We have found those who remain quiet in a meeting are often in disagreement and will otherwise talk away from the meeting of their displeasure. We stress never to close channels, so therefore...

Criticism must be constructive and intended to help the other person. We never want to "attack the person", only discuss the concept. We find it better for uncles or elders to offer such criticism.

We are committed to the family philosophy. Commitment requires that each family member have a comfortable living. We are committed to afford and encouraged the "best education" the person's talents permit. We have a special family fund for that purpose. That is one of the purposes of "cash".

Compassion: We seek to be compassionate to family and to those who work for use. We respect older family members. We give them love, time and recognition. Sharing recognition is important...

We want to be humble and share. We never let anyone, however brilliant, take all the credit. We also find ways in which the family – past and present – contributed to their success. In addition, when one feels he has achieved a great success, he is eager to share it with others.

The family has an informal executive committee of six people called the "Council of Elders" to assess how well the family is living its code and to develop ways to reinforce its importance with stories from history. The "Council of elders" is self-appointing and perpetuating, but always includes some young family members.

3.6.4.1 Critique on the 6 Cc Family Code Model

The model suggested by Ward, describes the major factors that govern the interpersonal relationships of the family members. The model suggests the areas, where the family members should concentrate their efforts to maintain a congenial atmosphere and co-ordinate the efforts of family participation in the business. The model mainly suggests that the core family values and the family culture form the basis of family outlook and perception of family members towards the family participation in the business. The model also suggests that the liquidity is not only important for the success of the business but also for the family, to meet the needs of individual members. It also suggests increased communication among the family members, constructive criticism and optimum recognition of credit for the working members of the family business as the success factors of a family owned business.

The most important suggestion of the model is the family commitment for the business it owns. Our research in the family owned businesses of Saudi Arabia has also revealed that the core family values, family culture and family commitment are the major factors that govern the success of family businesses in the market place. The research also indicated that respect of elders in the family, increased communication among the family members and encouraging active participation of young generation in the family business is practiced in the family businesses of the kingdom as suggested by Ward in the 6 'C' model mentioned above.

The model does not focus on the actual mechanism of strategic planning in the family owned business, or the time frame required for the planning process in the family business. It suggests the mechanism of increased communication and co-ordination among the family businesses but does not suggest the implementation through the family constitution or the family councils. It does not offer suggestions for the actual conflict management mechanism. By advocating increased liquid funds to be available for the family, it suggests higher preference of family share on the profits earned rather than further development of the business preference, by the profits earned.

The model also does not suggest the succession planning and methods of assessing the core family values of the family. It does also indicate the methods to be adopted for higher family participation in the business, the family continuity in the business plans and the vision and strategy formulation of the family owned business.

3.6.5 The growth model

The growth model has been described by **Ward [1997]**. Most family-owned businesses, the path to survival are one of stagnation. How do these firms survive when they do not grow for so many years? The answer is in examining two unusual circumstances that benefit non-growing survivors.

First, the non-growing firms that have survived have kept ownership in one person's hands, rather than evolving into sibling partnerships or firms held widely by a variety of family members. In general. Ownership by one family member who leads the business significantly increases the chances of growth and survival.

Second, the natures of their businesses and industries have spared them much competitive or technological change. Most of the long lasting survivors have avoided many of the business and family challenges faced both family and non-family businesses.

The family firms that have grown the most over time follow a different but no less predictable path: Each generation of leadership brings to the business new strategic ideas that build on underlying, long-held competencies developed for earlier strategies. In addition, ownership control rests with one family manager, or if not one, as few as possible. The following outlines the best practices needed to make the growth model succeed.

3.6.5.1 Critique on the growth model

The proposed best practices by Ward in the growth model are the first by the author to suggest the importance of strategic planning for the family businesses. The model suggest long term planning for the family businesses, rather than focus on the short-term profits. The model also suggests that the long term strategic planning is important for the survival of the family owned businesses. The model states that the family core values and culture should form the basis for the family business strategic planning process. It states that the family participation in the business should be strategically exploited for the growth of the family business. The model identifies that the family reputation in the market and the family unity are the main core strengths of the family in the business. The main draw back of the model is it is more business oriented rather than family oriented. It does identify the importance of family vision for neither the business, nor the unified approach of building a family and business vision. It does recognise the role of family constitution, the governing rules of the family and the role of family councils for family discussions on important matters affecting the family and business equally. It mainly focuses on imparting more role and power of non-family managers compared to family members in the business. It suggests more non-family manager's responsibility and rewards compared to family members. It does recognise the motivation methods for better family member's participation and performance in the family owned business.

It suggest in outside capital funds investments in the from of debt rather than pooling the resources of family members. The model suggests the family owned firms to be less capital intensive and leverage the debt in its capital structure. It focuses mainly on attracting and retaining the non-family managers compared to the family members in the family owned business. It suggest only the succession planning mechanism in the family owned business but does not suggest other important family matters such as conflict management, sibling rivalry and profit sharing mechanism, which have a profound effect on the family business success and the organisation culture of a family owned business. The model also does not suggest the methods to be adopted for the strategic planning process of the family business not the methods of assessing the family business current approach in its planning process.

3.6.6 The guiding process model

The guiding process model is described by **Ayres [1998]**. At a small number of businesses with which we work, we discover that their internal financial people and senior management are conversant in and capable of documenting their conclusions on the topic that must be addressed in the Ability to Pay part of the equation. They are usually in the process of setting a strategic direction for their firms that considers both the human and economic realities of ownership succession. In such situation, we can quickly determine whether the equation can be balanced. If it can, we move on to determine how and when the harvesting take place.

1. Most of our clients do not have the internal expertise to determine their own harvesting capability or corporate Ability to Pay. In those circumstances, we need a focused, respectful process to help guide the family and their business toward something they can confidently implement. The actual analysis of a client's situation is more sophisticated and customised than any simplistic model or outline we can offer, but hopefully a discussion of the simplistic issues this planning encompasses will prove helpful. One approach to solve this is essentially a four-step strategic planning process that comprises numerical analysis as well as organisational and governance concerns. All these factors are inter-related, each having both financial and emotional components.

3.6.6.1 Critique on the guiding process model

The model describes the method of transition from one generation to another and at the same time gives a blue print of estate planning and retirement benefits of the owner founder. The model does not dwell on the exclusive strategic planning process of the family owned firms. It does not discuss the method of external environmental analysis, the internal appraisal methods of the family firms and the strategic direction the firms should plan in light of the SWOT analysis carried out. The model does not discuss the major factor of the family, business and the personal dimensions that affect the strategic planning process of such firms.

During the course of research in Saudi Arabian family business firms, it was noticed that none of the firms had an estate planning mechanism or the retirement planning scheme for the founder owner, mainly due to the family structure and the culture of the Arab society. The elder or the founder participation in the business is for very long duration. In most of the companies, the founder owner is still the nominal head of the business even after the siblings take over the business management of the firms. The founder owner or the elders of the family command a deep sense of respect among the younger generations and they are governed by the principles of Islam where the parents or the elder family members are respected and taken care of by the family members [Sons] during their old age. Hence, retirement benefits of the founder owner have never been a subject of discussion or planning in the family owned businesses of Saudi Arabia.

The model also does not identify the time frame required for the strategic planning process and the people who should conduct it. The one main feature of the model is that it suggests a parallel approach in planning for the family and the business. It suggests that the family council simultaneously plan for the family, while the business consultants plan the business strategy. The model suggests the involvement of outside consultants in the business planning process.

3.6.7 The basic "Ability To Pay" Model

The basic ability model is described by **Ayres [1998]**. Gathering Financial Data. By gathering at least the last five years of financial statements, including balance sheets, income statements, cash flow statements, and corporate tax returns. To have industry statistics on debt ratios, profit margins, salaries, growth rates, and product life cycles, we pull in that information as well.

3.6.7.1 Critique on the "Ability To Pay" Model

The model also does not indicate the other methods of strategic planning for the family and the business. The model mainly concentrates on the financial performance of the firms and does not consider the factors such as the emotional attachment of the family members, their commitment towards the family business in the strategic planning process of family businesses. The model also is not applicable to many of the small and medium sized firms. The model overlooks the fact the most of the times, the family does not sell the business to outsiders, as most of the time the family identifies it self very close to the business. They have strong bonds of attachment. The model of payback overlooks the emotional factor of the family in the business.

The payback model is financially based model, which predicts the financial strength of a family firm. It analyses the earnings ability of the firm, in terms of cash flow, profits earned. The model looks at the historical financial data of the family firms and is more concerned with the financial benefits the family members are expected to get rather than the business benefits of such financial growth.

3.6.8 The organisation life cycle growth model

The organisation life cycle growth model is described by **Poutziouris, O' Sollivan and Nicolescu [1997]**. The model comprises four stages: existence, survival, comfort and growth. We address the basic features of the justification for each stage, in the context of the Greek Cypriot industrial system. There are four stages

1. Existence: This stage is related to the birth of the firm, where firm and founder-entrepreneur are normally synonymous. At this stage, there is an absence of formal management systems and organisational structure, capital resources are

low, and cash flow negative. Capital and human resources are often drawn from the familial network, and the ventures are dedicated to the production of a single line. Marketing and distribution channels are limited and frequently local in scope.

2. Survival: This stage is typically associated with some diversification of product lines, with the aim of gradually expanding the customer base. The informal management system involves supervision of loyal, family-trusted operatives. The capital investment programme shifts from the establishment of capital facility to the development of working capital.
3. Comfort: Post-survival-stage firms are characterised by a more corporate strategy, focuses either on exploiting the results of early growth to consolidate the company and lay the foundations for later growth, or to use corporate success as a base for the pursuit of alternative activities by the entrepreneur. These alternative activities might include building local profile in terms of public or quasi-public office. Organisational structure is basic, though there are elements of functional specialisation and delegation of authority. More formal financial, marketing, and production systems are further characteristics at this stage of development.
4. Growth: The main strategic concern of the firm in the growth stage is to ensure that the process of growth is both supported and controlled by the structures and processes of the firm. Growth might take a variety of forms: exploitation of scale economies by plant expansion, modernisation of the technological base, diversification, consolidation via merger or other less formal modes of strategic alliance. A central stimulus factor for a successful growth strategy is the acceptance of the need for professionalism of commercial practice as the firm develops from its previous family-oriented culture.

By definition, most Balkan enterprises are in the existence/survival stages. This is reflected in the problems that they face in terms of market location, the pricing of goods, and the establishment of clear strategic goals. Balkan enterprises are currently experiencing difficulties with the objective placement of goods within the marketplace, and with pricing policies. This has been stated as a key area in which they would appreciate help.

3.6.8.1 Critique on the organisation life cycle growth model

The model has been suggested for the Balkan states family owned businesses. The model describes the growth stages of family owned businesses rather than the actual strategic planning process of the family owned businesses. The model indicates that the family firms of the Balkan states are currently in the survival stage, where they face a stiff competition from the non-existence an organised market location, pricing policy and the organised mechanism of strategic planning process in these firms. The model indicates that the Balkan family businesses urgently need to plan their long-term survival strategies in the current economic environment of the Balkan states.

The model does not indicate the major forces of the family firms that affect the functioning and planning process in the family owned firms. It does indicate the importance of family constitution, family councils and their role in the maintenance of family harmony and unified approach towards the business. The model also does not describe the conflict management and profit distribution methods adopted in the Balkan states and its applicability in other family businesses of the world.

The model does not identify the time frame required for the strategic planning process, the precedence family or business over one another and the technicality of strategic planning process to be adopted specifically for the family owned businesses. It does show any correlation between the family business dynamics and strategic planning process of Balkan states and rest of the other family businesses in the world.

3.6.9 The parallel planning strategic family business model

The parallel planning strategic family business model has been described by **Randel, Carlock and Ward [1998]**. The strategic planning techniques are useful tools helping to develop a long-term approach to utilizing business capabilities and market opportunities. Unfortunately, traditional strategic planning models and tools are designed to focus exclusively on the business and its needs. They do not address family challenges that make family business unique. The expanded scope of family business requires a very different planning framework. A family business owned and managed by a family will produce lifetime work relationship. For this reason, families have to focus much more on process that is how they do things. The ways in which the family learns to work together may were be the critical factor in family harmony and ownership continuity.

Strategic planning using the parallel planning process is very different activity because of the integration of the family system. The scope of the planning process is broadened to consider the interaction and mutual influence of the family and business system. It links family and business planning so that the values and goals of both the family and business are fully considered. In the ultimate choice of business strategy, the plan must reflect family considerations, especially the family values and vision for the future.

In this model, in the first plan of strategic planning, the family explores core values, family business philosophy and a family vision, and its long-term goals. The outcome of this strategic thinking plan is the determining of family commitment and clarifying management strategic commitment.

During the second plan of the planning process, strategy formulation, and the family enterprise continuity plan and the business strategy plan are developed. The family considers family participation, leadership and ownership while management explores the firm's strategic potential, possible strategies and finalise strategy and investment decisions. These plan detail the family and the business, activities, tactics and programs designed to meet their goals and support the achievement of their shared future vision.

3.6.9.1 Critique on the parallel strategic family business model

It does not indicate a time frame of parallel planning process of family and business. It suggests that the family planning can be carried out at as separate two plans and do not proceed in lock step fashion. Hence, identifying a unified vision of family and business can take a long time and the family business can go through a turbulent environment. It does not provide information on assessment of various family business philosophies prior to strategic family business planning. Based on literature survey, a family philosophy for business can be of three styles:

1. Business oriented family
2. Family oriented business, and

3. Family-Business oriented family philosophy.

In the business-oriented family, the business is given importance over the family objectives and goals. Such a business is bound to suffer the family commitment and lack owners drive to continue in business. In the family oriented business, the family objectives and goals are given precedence over the business goals and such an approach of family towards the business would stifle the management freedom and end up in draining the business resources for family needs. A balanced family business philosophy would be equal balance of family and business needs and goals. This would lead to a shared business vision of family and business. This would form the basis for the family business planning approach

The parallel planning model does not throw light on pre-assessment and identifications of a family philosophy, which will identify the three types of family philosophies. And moreover, the model does not suggest how a particular type of family business with any of the three mentioned family business philosophy would commence the parallel planning process. It does not indicate the entry point of a particular family business in the model for strategic parallel planning process.

In practice, it has been found in our survey that the family commitment and family level of participation in the business is dependent on the family business philosophy. Hence, prior to commencement of strategic family business planning, it is imperative to identify the family business philosophy, balance it to a family-business equal importance philosophy, and define the score of family participation, which in turn would help in identifying the family commitment and a unified family business vision.

The parallel planning model suggests it the other way around. The family participation is linked with the family continuity plan in business and the family commitment considers only the family business philosophy.

The model considers only the level of family participation in the business and does not emphasise on the dynamics of family structure that has business interest. The participating family can be a partnership of father & sons, uncle and nephews, brothers, cousin's consortium and with family with outside investors. The model does not discuss this aspect of family constituents, who are involved in the business. It only discusses the level of participation in the business, either as active or passive members.

The model focuses on family councils and debating of various contention issues such as succession, profit sharing, retirement plan and conflict management in the family councils to develop an effective ownership and preparing the family managers and leaders. It does not discuss the designing, documenting and implementation of a family constitution, which is relatively more explicit rather than the family council discussions. All the models of strategic planning in the family owned firms, described in the literature have been summarised in Table 3.2 given below.

Table 3-2. Models for Strategic Planing for Family Business

1. Three Dimension Development Model by **Kelien, Gersick, Savis et'al.**	
Salient Features	Drawbacks
• Family firm have three Dimensions. Business, ownership and family. They are dependent and overlapping. • A family stakeholder in the business can move in any of the seven sectors that are formed by overlapping of these three circles. • Individual plans are formulated in the independent dimensions of a family firm, such as family plans, business plans and individual personal plans. • Business plans and family plans are not from a common vision of family stakeholders and business mission.	• Does not discuss the time frame of family plans and strategic plan of the business. • No unified vision of family and business. • More descriptive in nature about the dynamics of a family owned firm, rather than describe the strategic planning process in such firms.

2. Four Factor Model by **Stavsou**	
Salient Features	Drawbacks
• Adds one more dimension of market factor to the three-dimension model. • Focused more on the succession planning process in a family Owned firm. • It is the first model that emphasises on environmental scanning by the family firm to formulate its strategies. • It focuses more on the involvement of youngest generation in the family owned firm.	• Does not detail the actual strategic planning process in a family firm. • Does not emphasise the Importance of family and business vision, aims and objectives. • Does not discuss the involvement of family stakeholders in the strategic planning process of a family owned Firm

3. Three-Stage Development Model by **Sharuma and Chriswan**	
Salient Features	Drawbacks
• It defines the development stages in the life cycle of a family and business and the type of interaction between these entities at various stage of growth. • It suggests that the needs of the family should form the basis of strategic plans of a family owned firm. • It suggests that business goals can be changed because of family needs or desire to achieve a turnaround in the firm's economic performance.	• The model does not describe the major forces that shape the strategic planning process of a family owned firm. • It does not describe the timing of formulating the family and business plans. • The model does not describe the individual needs of the family and its members at various stages of growth in the life cycle of family and business.

4. The 6. C. Model by **Ward**	
Salient Features	Drawbacks
• The model defines 6 critical factors that shape the family business success. • It focuses on more interaction and communication among the family members to develop a unified family approach towards the business. • It indicates that the family culture is the core strength of a family business. • It emphasises liquidity of a family owned firm, and suggests that liquidity is not only important for the business but also for the family to meet the individual needs of its members.	• It does not define the process of strategic plans formulation or assessment of family core strength to face the challenges of external dynamic markets. • It does not detail the timing of formulation of strategic plan or the involvement of family members in the strategic planning exercise of a family business. • The model is more oriented on the financial strength and liquidity of a family owned firm and does not describe the other factors that shape the strategic planning process in family owned firms.

5. The Growth Model by **Ward**	
Salient Features	Drawbacks
• The model defines the factors that growth of a family owned business. • The model describes the importance of strategic planning for a family owned business to face the challenges of globalisation, and competitive environment. • It stresses the need of budgeting strategic expenses, providing global experience to the next generation of the family involved in the business and have independent directors on the	• Does not focus on the development of a unified family and business vision as the base for the strategic plans formulation. • It is more business oriented rather than family oriented and does not describe the method of developing a common consensus among various family members with different and independent needs compared to business needs. • It does not discuss the role of family councils and meetings in developing a unified vision of the family for the business.

board of family firm to avoid stagnation of business mission. • It suggests free flow of information among family and non-family managers, retaining the best performing non-family managers, champion change in the family firm and family firm • To have long term strategic plans rather than focus on short-term gains.	• The model does not describe the timing of strategic plans formulation of the family and business. It does not detail of these two planning procedures are to be done simultaneously or independently. • It emphasises more on retaining of non-family managers in the business rather than family members. • It does not detail the actual strategic plan formulation process in a family owned firm.

6. Guiding Process Model by Ayres	
Salient Features	Drawbacks
• The model describes in depth the succession planning and estate planning process. • It details the financial planning that needs to be carried out in the family during the time of succession. It details the method of retirement financial package that can be offered to the retiring generation and also the amount of shares that are transferred to the succeeding generation.	• It does not discuss the strategic planning process in a family owned firm. • It does not detail the formulation of mission, vision, goal and objectives as a part of the strategic planning process and instead focuses only on the financial planning to be carried out at the time of succession. • The model does not discuss the major factors in the family, business and personal dimension of a family owned firm that affect the strategic planning process.

7. Basic Ability to Pay Model by **Ayres**	
Salient Features	Drawbacks
This model is a financial model of a family owned firm, which indicates the profitability and business valuation.	• The model is more concerned about the financial benefits the family members are expected to earn, rather than the business benefits of such financial growth. • The model focuses on the valuation of the business as per market value, but fails to • Recognise that the family has an emotional attachment with the business and most of the times; the family does not want to sell the business. • It does not detail the actual strategic planning process in a family owned firm. • The model is mainly based on the historical financial performance of a family owned firm and does not consider the strong forces in the external environment and the internal dynamics of family relationship that govern the performance and growth of a family owned firm.

8. Organisation Life-Cycle Growth Model by **Poutziouris, O'Sullivan and Nicolescu**	
Salient Features	Drawbacks
• It suggests that a family firm passes through four stages of growth such as existence, survival, comfort and growth. • It suggests various changes it undergoes in its structure and	• The model mainly was developed for the Balkan States family owned business. • It does not discuss the major forces of a family, external environment and personal factors

operation during these stages. • It suggests various forms of strategies it should adopt at various stages of growth.	of individual family stakeholders that shape strategic plans of a family owned firm. • It does not detail the changing needs of family members at various stages of growth of the business.

9. Parallel Planning Model by **Randel, Carlock and Ward**	
Salient Features	Drawbacks
• The model suggests that the strategic planning process of a family owned firm should include the family that owns it. • It suggests parallel planning procedures simultaneously for both the family and business. • The family and business formulate their visions and the starting point of strategic plans formulation in the unified vision of family and business. • A unified family vision is based on the family philosophy of level of participation in the business it owns. • The feedback of strategic plans implemented in a family firm decides the continuity of family in a given line of business. • The model focuses on unified family and business vision, a family philosophy of level of participation in the business and unified strategic planning for both the family and business.	• The model does not define a method of assessing the family business philosophy. The family philosophy based on the level of participation in business can of three styles such as: business oriented, family oriented and family business oriented, and the model does not indicate the methodology of assessment of family business philosophy • It does not indicate a time frame of parallel process of a family and business. Hence identifying a unified vision of a family and business can take a long time and the family business can have lot of turbulent times in the meantime. • The participating family in business can be driven in nature of partnership among father and sons, brothers, cousins and wife & husband teams. The model does not discuss the dynamics of these relationships and its effect on the parallel planning process of a family owned firm.

3.6.10 Identification of gaps in practice

Summary salient features and drawbacks of the various models as given in Table 3.2 has revealed a number of gaps in practice including:

- The lack of a unified family and business mission and vision.
- The lack of societal values.
- The handling of the external environment, which can affect both the family and the business.
- The lack of a systematic approach in the models to arrive at a proper strategic planning process.

3.6.11 Discussions on models for strategic planning for family business

The strategic planning for the family business is considered similar to any other organisation strategic planning, the only differentiating factor being the involvement of the family and the precursor of planning being the unified vision of the family and the business. The various models of planning include the three-circle model of Gersick and Davis and four-circle model of Stavrou. These models identify the major factors that affect the strategic planning process, such as the family factors, personal factors of individual family members, the business factors and the market factors. The models identify the overlapping areas of these factors and the types of plans and the dimension of plans in each factor.

The literature survey of these models and their implementation for the strategic planning process of a family business shows only the components of each dimensional factor such as family, or the personal or the business factors, their overlap and interaction with each other and their influence on the strategic planning process. The models suggest the family goals as the starting point of strategy formulation in the family owned business, which is contradictory, as overemphasis on family objectives and goals can hamper the strategic competitiveness of the firm.

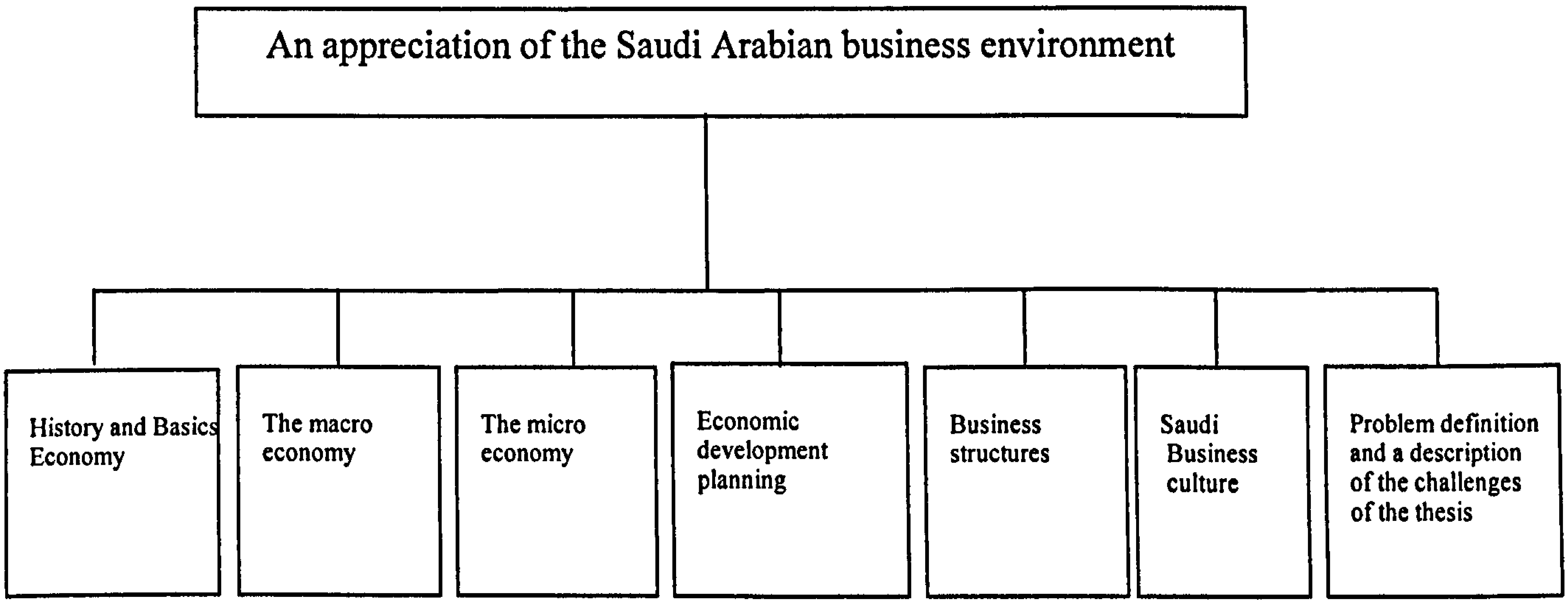
The models also do not suggest the time frame of planning the family plans and business plans. They do not even indicate if these plans are carried out simultaneously or follow one another. The three-circle model and other models of strategic family business planning do not indicate the level of family participation in the business neither do they suggest a method of assessing the family emotional attachment and commitment for the firm.

The focus of the models is the relationship management among the members of the family and little information is provided about the method of assessing the current strategic direction of a family firm and recommending a particular strategy to adapt to the external environmental conditions. The models also do not suggest the major performance indicators of a family business compared to those of other non-family businesses. The models are more descriptive in nature, which describe the forces that can affect the strategic planning process of a family firm rather than analyse these factors analytically and infer the major factors that need to be considered on each dimension during the strategic family planning process.

The factors in the models are not amenable to the quantitative statistical analysis and are more descriptive in nature. It helps more in identifying the areas of conflict between the three major factors in the three-circle model and are helpful more in the relationship management of the family owned business rather than provide a detailed methodology of strategic planning for a family owned business. Moreover, the model is not applicable to all types of family businesses. The family businesses can be in various stages of life cycle, the model does not provide an established method of identifying the stage of a family business on the life cycle grid, and developing a plan suitable to its particular location on the grid of life cycle.

CHAPTER

4 AN APPRECIATION OF THE SAUDI ARABIAN BUSINESS ENVIRONMENT



4.1 The Kingdom of Saudi Arabia

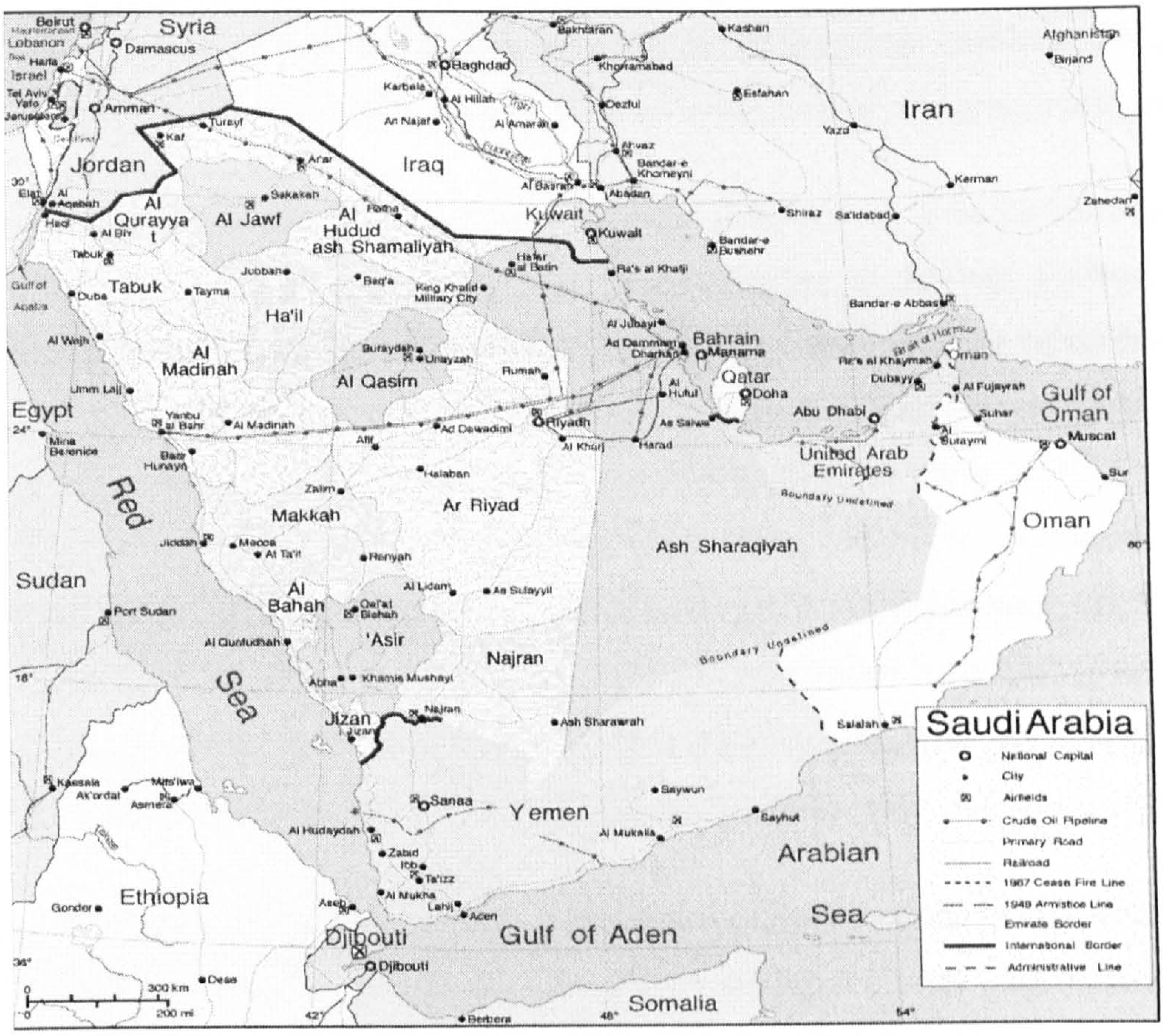
Summary information about the Kingdom of Saudi Arabia is given in Table 4.1.

Table 4-1. Summary Country data (KSA)

National name:	Al-Mamlaka al-'Arabiya as-Sa'udiya
Sovereign:	King Fahd bin 'Abdulaziz (1982)
Area:	756,981 sq mi (1,960,582 sq km)
Population (2004 est.):	25,100,425 (growth rate: 3.3%); birth rate: 37.2/1000; infant mortality rate: 46.3/1000; life expectancy: 69.1; density per sq mi: 33
Capital and largest city	Riyadh, 3,724,100
Other large cities:	Jeddah, 2,745,000; Makkah (Mecca), 1,614,800
Monetary unit:	Riyal
Languages	Arabic, English widely spoken
Ethnicity and race	Arab 90%, Afro-Asian 10%
Religion	Islam 100%
Literacy rate:	79% (2003 est.)

A map of the Kingdom is given in Figure 4.1

Figure 4-1. Map of Kingdom of Saudi Arabia



4.2 Background information about the Saudi economy

The following background information has been provided by The Chamber of Commerce **[Businessmen's Guide to Saudi Arabia, 2002].**

4.2.1 History and basics of the Saudi economy

Prior to the discovery of oil in the 1930s, the Saudi economy revolved around the pilgrimage to Mecca in the western area, subsistence farming in the few agricultural regions in southern and central regions, and pearling along the eastern coast. After the Second World War, oil quickly replaced these activities as the main source of revenue. In the early 1970s, the Kingdom embarked on a long-term program to use its substantial oil revenues to build the infrastructure for diversification of the economy into several areas besides oil.

In the 1970s, the government played the leading role in establishing basic infrastructure and institutions. From the early 1970s until the early 1980s, the government invested heavily to modernise the country, building and owning the telecommunications, electric power, water, road, airline, rail, health care and education infrastructure and systems.

The fall in the price of oil in the mid-1980s substantially reduced revenue from the oil and brought this phase of infrastructure expansion to an end. Reduced government expenditures and the subsequent economic slowdown led to companies seeking to reduce reliance on government contracts in favour of sectors that would benefit from population growth and private sector expansion. The Gulf War in 1990-1991 resulted in a substantial increase in defence-related spending, which in turn increased economic activity and spurred an increase in investment in local industry. In this period, the Kingdom moved, in some cases assisted by government subsidies, toward self-reliance in agriculture and dairy products, household goods and furnishings, construction materials, pharmaceuticals, and a growing list of appliances and electronic components.

From 1993 to 1995, another downturn in the oil market, government budgeted expenditure was reduced by approximately 24 percent from $52 billion to around $40 billion. The Gulf War period had resulted in substantial budget deficits, and had till the mid to late 1990s, so that by 1995 significant fiscal imbalances were starting to appear, particularly an increasing debt burden, albeit all domestic. This resulted in the austerity budgets of 1994 and 1995. In 1996, the recently appointed cabinet embarked on a multi-year program of improved fiscal discipline aimed at gradual elimination of deficits, privatisation, and turning to the private sector as the engine of future growth. In the mid 1990s, the maturing of the baby boom that began in the early 1970s raised the problem of emerging unemployment among Saudi youth to a high priority of economic policy.

The government was on a path to achieve its fiscal goals in 1996 and 1997, as revenues increased and spending was constrained. The deficit by 1997 had declined for 4 years in a row to $4.2 billion in 1997, under 3 percent of GDP.

In 1998, oil prices dropped severely, reaching historic lows by year-end. The government cut spending by 15 percent from 1997 levels to cope with the revenue decline, but still ran a budget deficit of over $12 billion, close to 10 percent of GDP.

The oil price recovery beginning in the second quarter of 1999 allowed the government to improve its fiscal performance. It held spending below 1998 levels, and reduced the deficit further, to $9 billion. The 2000 fiscal balance enjoyed a $6.1 billion surplus, the first since 1982. It was not to last, however, as the budget slipped again into deficit in 2001, and another is expected in 2002.

Even with constrained spending during most of the 1990s, the government shifted the focus of its spending away from military purchases and infrastructure development toward education, health care, and social programs. This shift is in response to the high population growth of the oil boom years as Saudis in much larger numbers are now moving through the educational system and into the workforce. Expenditures on national education programs have increased from $6.8 billion in 1989 to $14.5 billion planned in the 2002 budget. The total number of students has increased from 540,000 in 1970 to 4.4 million in 1999, according to the Ministry of Education and the Ministry of Higher Education. Adult literacy improved from 33 percent in 1984 to 76 percent in 1999, according to the World Bank. Life expectancy has gone from 54 years in 1970 to 74 years in 1999. In the same timeframe, hospital beds went from 846 persons per bed to 501, and infant mortality fell from 10.5 per hundred live births to 2.0.

The Kingdom also has stressed the development of non-oil industries and offered incentives to businesses to initiate industrial activities. According to the Ministry of Industry, in 1980, Saudi Arabia had 730 industrial plants with total invested capital of $6.3 billion. At year-end 2000, the number of plants had grown to 4,836 with total invested capital of $71.9 billion. These included over 400 joint ventures with foreign companies. The government has sought to encourage foreign investment in Saudi Arabia. There are no foreign exchange controls and the Saudi Riyal has been pegged to the U.S. dollar at a rate of 3.75 Riyals to the dollar since 1986. A new foreign direct investment law was issued in April 2000, which reduced tax rates on foreign owners' corporate profits from maximum 45 percent to maximum 30 percent, allowed foreigners to own land where they do business and sponsor their own foreign employees, and gave access to other incentives, such as low-cost financing, previously available only to majority Saudi-owned entities.

For the past 30 years, economic development has been broadly governed by five-year economic plans. The early plans emphasised the development of the Kingdom's infrastructure, with later plans focusing increasingly on human resources, private sector development, and reducing dependency on oil. The seventh development plan, which began in 2000, has an emphasis on employing young Saudis and increasing the private sector's role in the economy.

4.2.2 The macro economy

Saudi GDP in 2001 totalled SR 637.2 billion ($169.0 billion), the largest economy in the Arab world dominated by oil production. In 2000, the non-oil private sector had grown to comprise 42 percent of GDP. It is an attractive place to conduct business. The economy is characterised by capitalist and free markets, low inflation, and low interest rates, no capital controls on movement of money in and out of the country, a stable currency, well-developed infrastructure, and substantial private wealth. Real GDP growth was characterised by boom in the 1970's, bust in the 1980's, wartime growth in 1990-1991, and low growth throughout the 1990's. The government undertake broad–based economic reforms to reduce government dependence on oil revenues, eliminate budget deficits, and reduce government debts. Overall, real GDP growth is forecasted to be 6.8 percent. The economy will see growth of 13.3 percent based on higher oil revenues and will end the year at SR 787.5 billion ($210 billion). Per capita GDP will grow to over $9,200.

The government sector has constrained spending and output growth as part of a policy of fiscal retrenchment and debt containment. Government sector growth in this environment has averaged 1.7 percent per year since 1998. In 2003, a 1 percent growth in government output has been forecasted due to the tight budget.

The non-oil private sector is expected to grow 3.5 percent in real terms this year but below the 4.2 percent growth rate of 2002. Money supply growth (M3) is the monthly indicator of private sector economic activity since GDP growth data is only reported at the end of the year.

4.2.3 2003 GDP growth

This is shown in Table 4.2 below. Inflation will remain tame for the year at a SAMBA-forecast 1.0 percent with strong nominal GDP growth and low-inflation environment. SAMBA-forecast $13 billion current account surplus for the year, the Kingdom's seventh surplus in the past eight years.

Table 4-2. 2003 GDP Growth Forest

Sector	Forecast Growth	Sector (%)	Contribution of Growth % x Weight % = GDP.
Oil	13.1	34.0	4.4
Non-Oil Private	3.0	45.0	1.4
Government	1.0	21.0	0.2
Total GDP Growth			6.0

4.2.4 First quarter 2003 developments

Two trends have been apparent in the Saudi economy in the first quarter of the year, both stronger than we had expected at year-end 2002. The first is the rise in oil revenues and the second is a slowdown in broader economic activity, especially in travel-related businesses such as airlines and hotels, but also in consumer spending across the board.

First quarter 2003 key developments include:

- Real GDP revised upward from 3.8 percent to 6.0 percent, on the strength of sharply higher oil production.
- Oil revenues average $7.7 billion per month in the quarter, compared with an average of $5.5 billion per month in 2002.
- Government on track to reduce, but not eliminate the 2003 budget deficit.
- Private sector growth slowed in the first quarter due to regional tensions. Travel-

related industries hardest hit.

4.3 The Saudi Economy

(Source: SAMBA – August 2003. The Saudi Economy: Mid Year – 2003 Update)

The Saudi economy is enjoying one of its strongest years in the Kingdom's history. The GDP growth is likely to exceed 6 percent and oil revenues are on track to be the highest in over 20 years. The government showed a strong budget surplus and debt reduction and the current account will have a healthy surplus. In addition, the stock market was up 55 percent year to date at the end of July (its fifth year in a row of strong gains), and real estate continues to boom.

Te basis for strong GDP growth is as follows:

- Real GDP will grow 6.8 percent. This is mainly due to the contribution of the oil sector, with an average forecast oil production of 8.6 million barrels of crude oil per day - a 14.3 percent increase since 2002. The private sector will grow a respectable 3.5 percent and government output will grow about 1.5 percent.
- Nominal GDP, on the strength of the high oil revenues, will grow 13.3 percent, and GDP per capita will grow to over $9,200 for the first time since the early 1980s.
- Trade balances will remain healthy, with a projected $20 billion current account surplus.

Budget surplus for the year is expected at SR 23.5 billion ($6.3 billion). Government debt decline coupled with strong GDP growth will result in the government's debt-to-GDP ratio decline from 94 % to 80 %. Stock market rise 55 percent through July lead by Saudi Telecommunications Company (STC), with 132 percent, followed by the Saudi Electric Company (SEC), up 98 percent. Money markets remain calm with no pressure on the exchange rate or on domestic interest rates, which closely track US dollar rates.

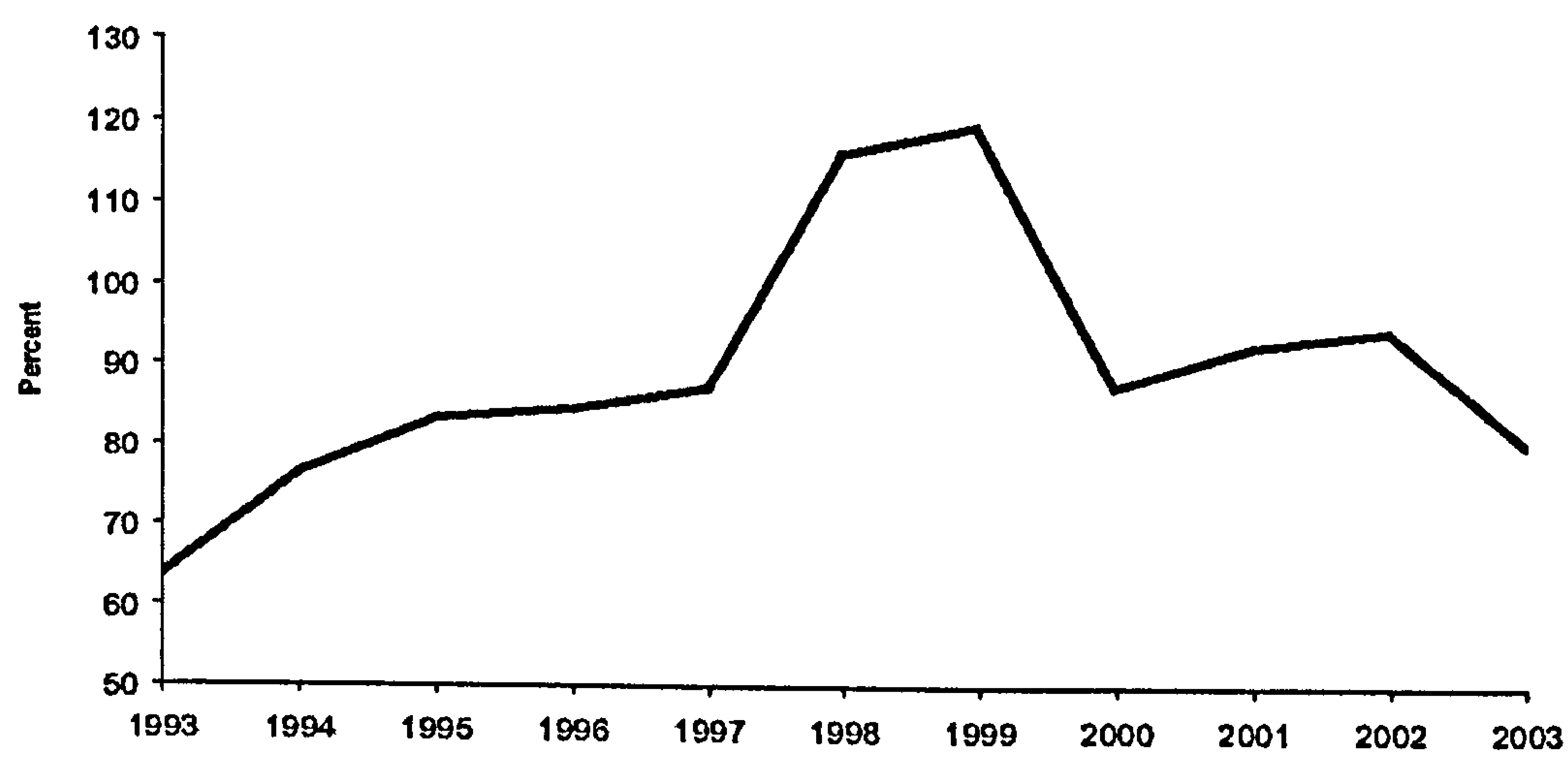
4.3.1 Fixed capital formation and growth

"Capital" in economics is the fixed, long-lived assets that can generate economic surplus (such as buildings, machinery and equipment, and vehicles), and the money that lays claim to these assets (such as business borrowings in the 'capital markets'). The Gas Initiative with major foreign oil companies, which started in 2004, will bring an investment of around $25 billion to the Kingdom's gas and associated downstream industries. Saudi Arabia has adequate savings rate to support higher levels of investment were personal wealth and bank borrowing is generally available to finance attractive projects.

4.3.2 Government debt

Government debt currently stands at about SR 650 billion ($173 billion) as shown in Figure 4.2. The combination of modest debt reduction and substantial GDP growth would put the year-end 2003 debt-to-GDP ratio at 80 percent, an improvement to a level not seen since 1994.

Figure 4-2. Government domestic debt percentage of GDP



4.3.3 Government foreign assets

The foreign assets of the central bank, SAMA (Saudi Arabian Monetary Agency), declined from year-end 2001 to year-end 2002 by $6.5 billion, from $48.3 billion to $41.8 billion. The first half of 2003 showed a reversal of the decline and strong increase in SAMA's foreign assets that grew by \$9.2 billion to \$51 billion. The large government pension funds had an additional \$36.6 billion in foreign assets - an increase of \$1 billion over year-end 2002. Government (SAMA plus the pension funds) foreign assets total is \$87.6 billion or 83 percent of the broadest measure of domestic money supply—M3 from 43 months of imports, and 2.2 times private sector-held government debt.

4.3.4 Increasing the role of the private sector in the national economy

Over the past 30 years, the steady improvement in the private sector's economic efficiency (in investment, production and institutional terms) is considered among the outstanding achievements of the development plans. The number of operating factories increased from 199 in 1970 to 3,123 in 1999, while the number of companies in private sector increased from 923 in 1970 to 9,302 in 1999, reached 50.6% of GDP and 74% of non-oil GDP by the end of 1999. Private sector employment currently accounts for 85.9% of total employment with an increased from 1.83 million in 1970 to 6.16 million by 1999. Table 4.3 indicates the expanded rate and diversification of the private sector in the past three decades:

Table 4-3. Saudi Private sector contributions to GDP

	INDICATOR	1970	1999
1	Number of operating factories	199	3,123
2	Number of Private Sector	923	9,302
3	Contribution in GDP	33.3'%	50.6'%
4	Contribution in non-oil GDP	67.9'%	74%
5	Contribution in fixed gross capital formation	47.3'%	67.3'%
6	Private sector employment as percentage of total employment	0	85.9'%

(Seventh Development Plan 2000 – 2004; Ministry of Planning, Saudi Arabia).

The industrial investments increased from SR 2.8 billion in 1970 to SR 232 billion in 1999. The value added of the manufacturing industries sector increased during this period by a real average annual growth rate of 15% more than doubling its contribution to non-oil GDP. The Seventh Development Plan provides incentives to encourage the private sector to achieve a more balanced growth among the various regions of the

Kingdom and to limit the migration of population to major cities in search of better job opportunities.

4.3.5 Trade sector

The trade sector plays a vital role in developing the sources of national income and meeting the needs of citizens for goods and services, as well as in providing job opportunities. It includes a vast number of individually owned firms that are recorded in the commercial register and that undertake trading activities freely within the institutional framework and the regulatory rules of the sector.

4.3.6 International trade liberalization and globalisation

The Kingdoms expected accession to WTO would bring important advantages to the Saudi private sector by overcoming constraints on the development of non-oil exports, particularly petrochemicals, and by enforcing actions against dumping practices. The stability and transparency of rules and regulations applicable to both indigenous and foreign firms alike will greatly enhance the environment for attracting foreign direct investments and expanding joint ventures. Accession to the WTO will require changes in current laws regulating investment, foreign workers and ownership and operation of enterprises. The services sectors will become open to foreign investments, leading to a gradual increase in competition as foreign companies enter the services sectors. The modernisation and development of the services sectors will contribute to a more diversified and advanced production base and reduce the kingdom's dependence on imported services, while expanding the economic activities of the private sector and providing additional jobs for Saudi nationals.

4.3.7 2004 overall economic performance

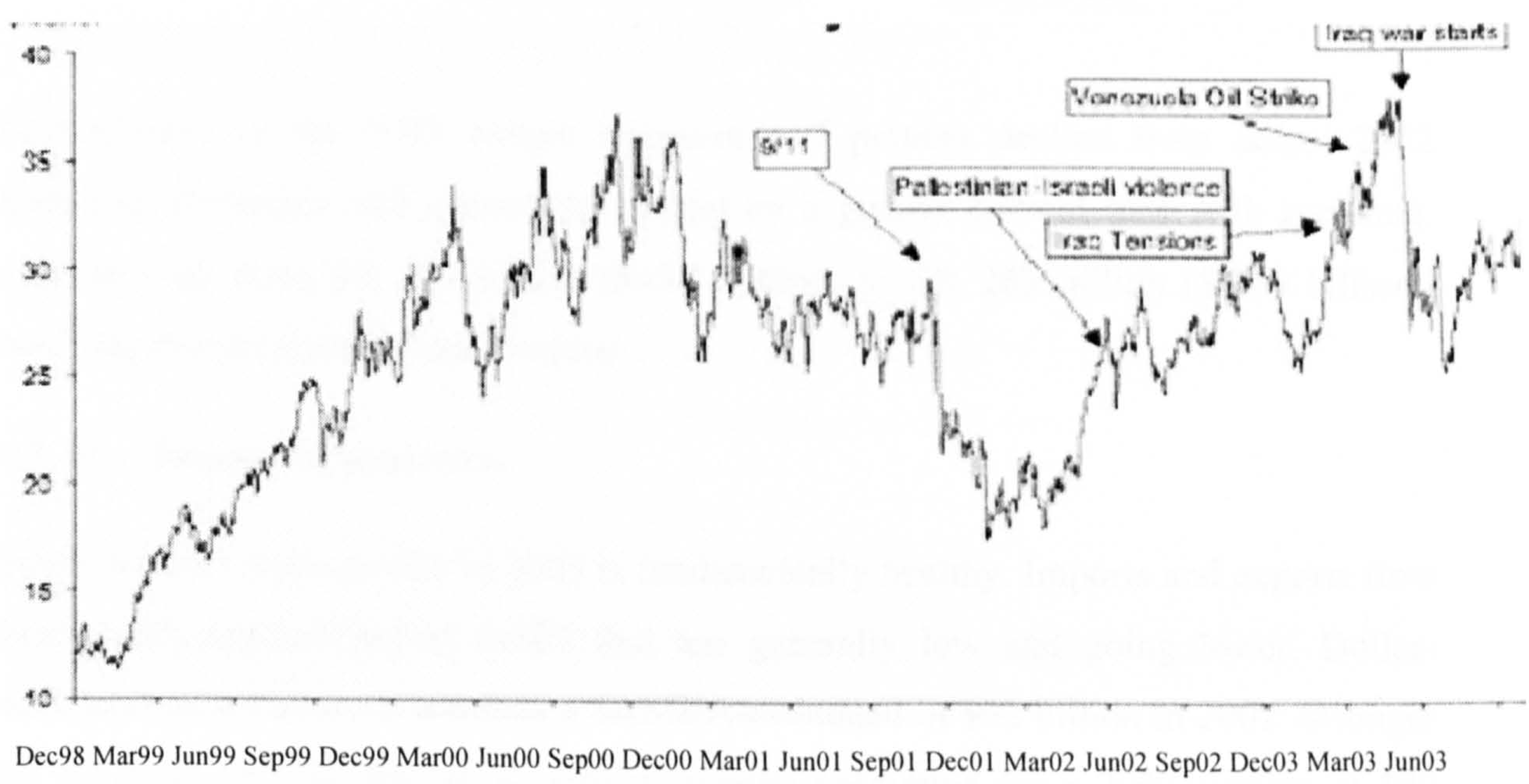
The preliminary forecast is for a 1.6 percent decline in real GDP in 2004. Coming off a year of unusually strong oil sector growth of 13 percent, the oil sector is likely to decline by 11 percent in real terms in 2004, because of the oil production cuts. This decline will be offset, but not completely, by growth of a forecast 4 percent in the private sector and 2 percent by the government.

4.3.8 The micro economy

Saudi Arabia with a population of 22 million is one of the richest Gulf state after Kuwait. The oil boom, as shown in Figure 4.3, and close cooperation links with America and European nation helped the nation in many of the development works, infrastructure and education of the population. Saudi Arabian markets are one of the biggest potential markets for consumer durables and luxury products manufactured in the west, due to high paying capacity and savings in the income of consumers. Saudi Arabia is a tax-free country as government provides all the basic amenities at its expense.

The Kingdom has made and estimated over $50 billion in oil revenues through July, and is on track to take in about $85 billion for the year. This compares with a total of $65 billion in 2002 and a recent low of $34 billion in 1998.

Figure 4-3. Crude oil (WTI) Daily Price Dec. 1998 – July 2003



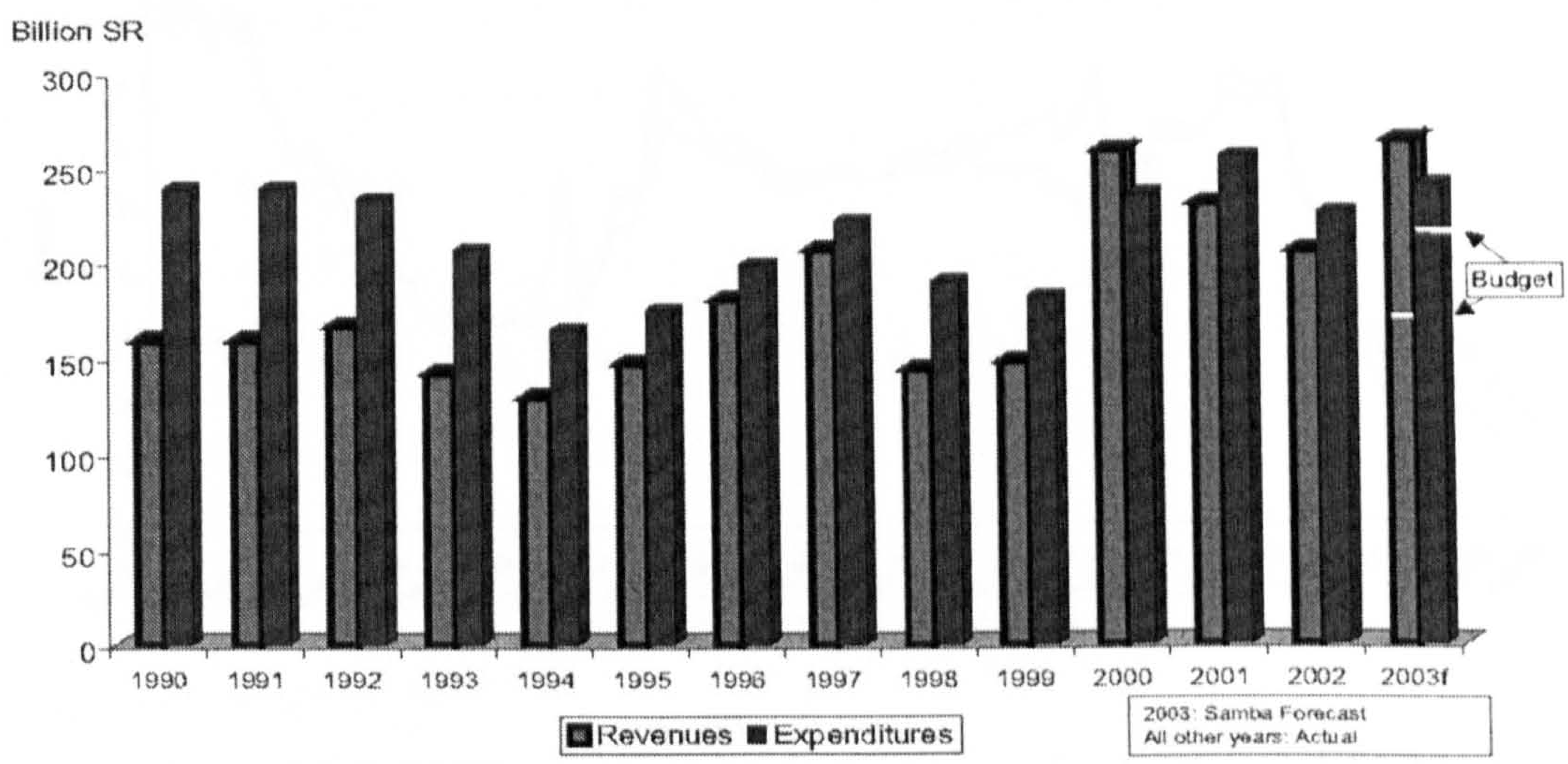
4.3.9 Government finances

Foreign Asset Growth

The government will have substantial flexibility to improve on its forecast deficit of SR 39 billion ($10.4 billion). With the unanticipated revenues, the government is likely to engage in a combination of additional spending, debt reduction, and build-up of foreign assets to gain a mid-year budget surplus of SR 23.5 billion ($6.25 billion).

Figure 4.4 shows government revenues and spending for the period 1990 to 2003.

Figure 4-4. Government revenues and spending



Expenditures in the 2003 budget represent a 7 percent decline from actual 2002 spending. Revenues will exceed the budget by a greater amount than with spending, estimated up from SR 170 billion ($45.3 billion) to SR 263 billion ($70.4 billion), resulting in a projected budget surplus.

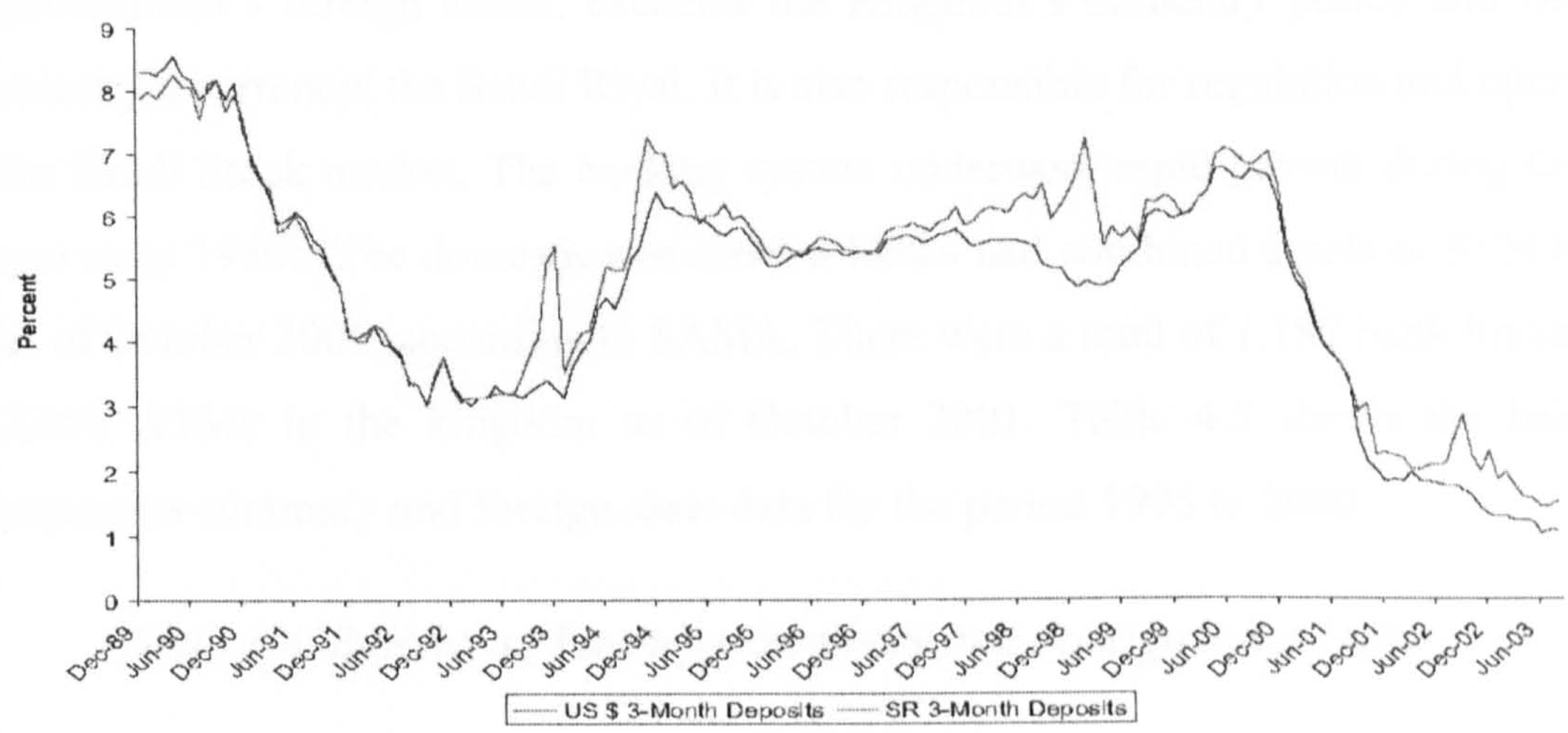
4.3.10 Balance of payments

Saudi Arabia's trade profile in 2003 is fundamentally healthy. Imports and exports flow freely with applied import tariffs that are generally low and going lower. Dollar-denominated oil exports, totalling a SAMBA-estimated of $92 billion in 2002. Stronger oil revenues and the decline in service imports accounted for a 2003 surplus of $20 billion.

4.3.11 Money and stock markets

The stock market is up 55 percent for the year through July. This comes on the heels of four previous years of gains. U.S. and Saudi interest rates for the period December 1989 to June 2003 are shown in Figure 4.5.

Figure 4-5. US and Saudi interest rates



In the first half of 2003, money markets have remained calm and highly liquid in the region. Interest rates on US dollar deposits stood at 1.0 percent on 3-month time deposits at the end of July.

Sectors that showed market gains are telecommunication with 132 percent, electricity with 98 percent, industrial with 74.9 percent, services with 44 percent, agriculture with 21.6 percent, cement with 19.7 percent and banking with 13.8 percent.

4.3.12 Sharp rise in oil revenues

Oil prices rose to above $30 per barrel during the quarter, and then declined to around $24 per barrel in late March. For the first quarter, the average price of Saudi oil was $29.30. Saudi oil production averaged 9.0 million b/d.

4.3.13 2003 government finances

Oil revenues will give the government substantial flexibility to improve on its forecast deficit of SR 39 billion. The budget achieved during the first quarter was based on an overall oil revenue stream of about $4.1 billion per month versus the $7.7 billion per month.

4.3.14 The Saudi financial system

The central bank is the Saudi Arabian Monetary Agency (SAMA). SAMA acts as the government's bank, regulates and monitors commercial banks, manages the government's foreign assets, executes the Kingdom's monetary policy and issues the country's currency, the Saudi Riyal. It is also responsible for regulation and operation of the Saudi Stock market. The banking system underwent rapid growth during the 1970s and early 1980s. The domestic commercial banks had combined assets of $124.8 billion as of October 2001, according to SAMA. There were a total of 1,197 bank branches and 2,456 ATMs in the kingdom as of October 2001. Table 4.5 shows the balance of payments summary and foreign asset data for the period 1995 to 2000.

Table 4-4. Balance of Payments Summary and Foreign Asset Data

(Billion U.S. $)

	1995	1996	1997	1998	1999	2000
Merchandise Trade Balance	24.3	35.2	34.2	11.2	24.9	50.9
Oil Exports	43.4	54.1	53.2	32.5	44.7	72.1
Other Exports	6.5	6.5	7.4	6.3	5.8	6.6
Total imports	-25.6	-25.4	-26.4	-27.5	-25.7	-27.7
Services and Transfers	-29.6	-24.5	-33.9	-24.3	-24.5	-35.3
Current Account Balance	-5.3	0.7	0.3	-13.1	0.4	15.6
Official Foreign Assets	67.9	78.1	86	78.3	69.4	81.4
Banks' Net Foreign Assets	15.5	18	14.3	11.4	10.8	9.8

(Source: Thirty-Seven Annual Reports SAMA November 2001 for Balance of Payment Data. SAMA Monthly Statistical Bulletin November 2001 for Official and Bank Foreign Assets)

4.4 Economic development planning

The steadily rising accumulation of surpluses from oil sales since 1970, following the sharp price and production increases which continued into 2000, have enabled the government to make prudent decision to utilise the surpluses for the development of human and natural resources through a series of five year developmental plans. Over the past thirty years, six development plans have been implemented and the seventh development plan will be implemented during the period of (2000-2004). With respect to planning methodology and approach, a comprehensive multi-dimensional (economic, social and institutional) planning methodology has been selected comprising both directive and indicative planning approaches. However, the relative importance of indicative planning has increased in line with the steady increase of private sector's contribution to socio-economic development. This has accelerated the growth of various sectors of economy, which, at the start of the development planning process had been suffering from the domination of oil sector as a single source of income, an un-diversified production base, inadequate institutional and administrative structures, a weak infrastructure and shortage of qualified Saudi human resources. The situation is now quite difficult. The economic base and source of income have witnessed a marked diversification. The Saudi economy is now prepared to deal in a flexible and difficult manner with local regional and international developments, particularly the WTO which the Kingdom will join shortly.

The long-term strategic development objectives were first formulated during the preparation of the first development plan in 1970. Over the past three decades, development planning in the Kingdom has acquired its unique characteristics whereby each plan has been tailored to adapt to prevailing condition and to deal flexibly and efficiently with developments of the coming stage, thereby paving the way for the next plan. Since the early stage of development planning, the ultimate goal of development in the successive plans have been the development of Saudi citizens capabilities, the realization of their aspiration, meeting their needs and improving their standard of living, while expanding the development process to cover all economic and social sectors throughout the Kingdom. In implementing its development strategy, the Kingdom has defended on Islamic values and principles, the enterprise system and an open economy policy.

From the outset of development planning in the Kingdom, the adoption of the market principles ensured that the private sector was intended to be a focus of economic activity. Although the increases in oil revenues in the first three plan periods necessarily accorded to the government the lending role in guiding and stimulating economic development, the investment and the rapid transformation of financial resources into productive physical assets during this period were not deployed. Furthermore, the active participation of private sector in undertaking the necessary construction, operation and maintenance of these assets was revised.

The government has used a wide range of financial and regulatory measures to encourage the private sector to engage in joint ventures with foreign firms and to invest in new capacities using the latest available capital-intensive technology, mainly in agriculture and industry. As a result, the number of private sector companies has risen rapidly, along with the volume of private investments in fixed assets and the range of private manufacturing activity. Moreover, the private sector's dependence on government expenditure has decreased significantly. The growing maturity of the private sector and its resilience to declining government expenditure are evident in the following indicators:

Private sector production increased by an average of annual rate of 5.6% over the period (1969-1999), surpassing the 4.3% average annual growth rate of GDP during the same period.

The private sector contribution to GDP and to non-oil GDP amounted to 50.6% and 74% respectively in (1999) at constant prices of 1994.Annual private investment rose from 1 billion Riyals in 1970 to about 78.6 billion in 1999, thus bringing the contribution of the private sector to fixed capital formation to 67.3% at current prices.

Successive five years developmental plan have increasingly emphasised the development of the private sector within the context of a free market economy with the aim of preparing this sector to become a major pillar of economic activity. Towards this end, the plans adopted a set of policies, incentives and regulatory initiatives that contributed to expanding the private sector's role in the national economy and steadily increasing its economic efficiency. This has been positively reflected in the sector's response to the government directions related to privatisation.

During the preparation of Seventh Plan, the Ministry of Planning carried out a comprehensive survey of private sector establishments in 1999 with the aim of defining indicators of present conditions, structural features and challenges facing this sector. This contributed to the credibility of related economic forecast and the selection of the best available policies, measures and initiatives to enhance the role of this sector.

4.5 Business structures

4.5.1 Company law

The regulations for Companies, issued by Royal Decree in 1975 with subsequent amendments, contain the rules and procedures for several types of business organisations permitted in Saudi Arabia. Joint stock companies and limited liability partnerships are of particular interest to foreign investors. Other business organisations specifically covered by the Regulations include the following **[Salman, 2001]:**

- General partnerships
- Limited partnerships
- Registered branches of foreign companies
- Joint ventures (temporary associations for carrying out specific projects)
- Partnerships limited by shares
- Companies with variable capital
- Co-operatives.

A company registered under the Regulations for Companies is defined as a joint undertaking to participate in an enterprise with a view to profit. A company has the following characteristics:

- It is deemed to be a commercial company, regardless of its objectives.
- It acquires a legal identity of its own after the registrations formalities are completed, unless it is a joint venture.
- Its statutes must include certain mandatory information, such as the type of company, its duration, its objectives, the location of its head office, the amount of capital, etc.;

- Its contractual conditions, which are established by the partners or shareholders, must be consistent with the Regulations for Companies;
- It is dissolved if one individual owns all of the shares or interests, because sole proprietorships cannot be registered companies;
- It may not enjoy certain rights if it is not 100 percent owned by Saudis, but it would still be considered a Saudi company.

Foreign entities that wish to carry on business inside Saudi Arabia are required to create a formal legal presence for themselves whether this is by way of a branch registration or in partnership with Saudis (limited liability partnership), and obtain the appropriate commercial registration.

There are various means available to the foreign investor wishing to do business in Saudi Arabia. The limited liability partnership is the most common for foreign investors intending to establish ongoing business activities, where specific contracts in the government sector. The following structures are commonly encountered.

A Limited Liability Partnership (LLP) is a privately held company that can be used to establish an industrial agricultural, contracting or services projects that will have both Saudi and foreign partners. All LLPs licensed by the Ministry of Industry and electricity on the recommendations of the Foreign Capital Investment Committee (FCIC) is subject to the Regulations for Companies and foreign capital investment regulations. An LLP is sometimes referred to as a Saudi limited company, because all partners have limited liability, subject to certain conditions.

An LLP cannot offer a subscription to the public to raise or increase its capital, and cannot conduct insurance, savings or banking operations.

The Saudi government may grant various incentives approved projects with a foreign capital investment license, which transfer technological expertise and provide training opportunities for Saudis. These incentives include:

- Tax holiday: a ten-year exemption from corporate tax on the foreign investors' share of profits for industrial and agricultural projects and a five-year exemption for other projects, provided the project has a minimum 25 percent equity participation by Saudi nationals.

- Financing assistance: low-cost financing through the Saudi Industrial Development Fund (SIDF).
- Industrial facilities: nominal rent on building sites and low fees for water and electricity.
- Duty exemption: exemption from customs duties on imported equipment and raw materials.

All LLPs require at least SR 50,000 capital, although the FCIC usually requires a minimum of SR 1,000,000. In practice, in respect of industrial projects the FCIC expects that the capital contributions of the partners should not be less than 25 percent of the initial project cost (including working capital requirements).

A joint stock company has the following characteristics:

- Five or more individuals or entities own it;
- Its capital is divided into negotiable shares of an equal amount and shareholders are liable only to the extent of the value of their shares;
- Its capital cannot be less than SR 2 million, or less than SR 10 million if its shares are offered for public subscription;
- The par value of each share cannot be less than SR 50;
- At incorporation, its paid-up capital cannot be less than one half of the authorised capital, and the amount payable on subscription not less than one quarter of the authorised capital

4.5.2 General partnership

A general partnership is an association of two or more persons that are liable jointly for partnership debts to the extent of their entire personal wealth. It is a separate legal entity and can transact business in its own name. Partners may not transfer partnership interest without unanimous consent. There are no minimum capital requirements. Contribution terms are set out in the partnership agreement, which must be registered with the ministry of Commerce. The general partnership is a common from of business organization used by Saudi nationals.

4.5.3 Limited partnership

A limited partnership is composed of general and limited partners. General partners are liable to the entire extent of their personal wealth and limited partners are liable to the extent of their investment in the partnership. A limited partnership is registered in the same way as a general partnership.

4.5.4 Professional partnership

Regulations relating to professional partnerships that enable foreign professional firms and individuals to form joint practices in Saudi Arabia with locally licensed partners were issued in 1991. Approved for forming a joint partnership must be obtained from the Ministry of Commerce, conditions for approval include, the foreign firm must have a distinguished international reputation; ten years must have elapsed since the founding of the foreign firm; the foreign firm must transfer expertise and train Saudis; the Saudi partners must own at least 25 percent of the capital.

4.6 Business taxation

The government of the Kingdom of Saudi Arabia levies all taxes in the Kingdom, and the Department of ZAKAT and Income Tax (DZIT), which is part of the Ministry of Finance and national Economy, administers the tax system. The Income Tax Regulations of 1951 are amended and clarified through the issuance of royal decrees and orders, council of ministers' resolutions and circulars.

Income tax or ZAKAT, which is a religious wealth tax, is assessed on the taxable income of joint stock companies, limited liability partnerships, foreign branches, partnerships, contractors and professionals. Foreign entities are subject to income tax on their share of profits from business entities, but are not subject to ZAKAT. Saudis and Gulf Co-operation Council (GCC) nationals and interests owned by then are subject to ZAKAT (which is applied on a formula basis) but not income tax. Individuals are not taxed on salaries or wages.

Capital gains on the sale of business assets and business interests are treated as ordinary business income. There are two principal methods for computing the gain on the sale of interests in a business.

Both income tax and ZAKAT may be collected through withholding by the payer rather than direct assessments on the income recipients, especially if the recipients are not registered with the DZIT. Indirect taxes consist of customs duties levied on imported goods. Saudi Arabia does not impose sales tax; value added tax, estate tax or gift tax.

The rates of company income tax are as follows:

- 25 percent on the first SR 100,000
- 35 percent on the next SR 400,000
- 40 percent on the next SR 500,000
- 45 percent on amount in excess of SR 1,000,000.

ZAKAT rates are 2.5 percent of capital employed that is not invested in fixed assets, long-term investments and pre-incorporation expenses deferred, as adjusted by net results for the year. If companies or partnerships are owned by Saudi or GCC nationals or both, as well as by other foreigners, ZAKAT is assessed in proportion to the equity interest of Saudi and GCC nationals in the company.

4.6.1 Taxable income

The method of computing taxable net income is essentially the same for all types of business entities, and foreign branches are taxed in a manner similar to that of resident companies. Certain industries such as banking, insurance and airlines are subject to special rules in computing taxable income.

Taxable income is gross income and profits derived from operations inside Saudi Arabia or from operations carried on inside and outside Saudi Arabia at the same time. Gross income is determined using the accrual method of accounting.
Dividends paid out of profit previously taxed in Saudi Arabia are excluded from income. Foreign source income from Saudi resident business entities is assessed in the same manner as income derived from within the Kingdom.

4.6.2 Deductible expenses

In general, normal business expenses are deductible provided they can be substantiated by appropriate documentation such as invoices. Deductions are restricted with respect to the expenses described below.

- Head office expenses – Allocations of general or administrative costs of the head office are not deductible.
- Technical expenses – Technical expenses incurred outside Saudi Arabia in connection with engineering or other technical services directly related to a project undertaken in Saudi Arabia are deductible.
- Depreciation - Statutory maximum rates of depreciation are established by the DZIT. If rates used in the financial rates are used in the financial statements, an additional claim is not allowed. In certain circumstances, excess depreciation, which has been disallowed in earlier years, may be recaptured and claimed as a tax deduction when an asset has been fully written off for accounts purposes.

4.6.3 Taxation of individual

Foreign employees are not taxed on their wages or salaries. Self-employed foreign professionals are taxed on the taxable profits from all of their activities in the Kingdom. Resident taxpayers who stay in the Kingdom for one complete year are exempt from tax on the first SR6, 000 of income.

4.7 Saudi business culture

In order to understand the Saudi business culture, it is important to explore two key issues: the tribal nature of the population and the values and heritage of the Saudi society

4.7.1 The tribal nature of the population

The population of Saudi Arabia consists of a number of tribes each occupying a region with which they are traditionally associated. The lifestyles of the Kingdom's inhabitants of the various regions, namely the modes and patterns of life of those living in the

Western, Central, Eastern and Southern Provinces of Saudi Arabia. (Saudi Arabian Culture; Saudi Commerce and Review – Feb. 2002)

The Hejaz, widely referred to as the Western Province, is the native land of those referred to as Hejazis. Since ancient times, fishermen and farmers of this region have inhabited settled communities alongside other groups leading a nomadic life. The people of Hejaz were distinguished by their trading activities. The region of Hejaz has today become the spiritual focal point for all Muslims of the world, which visits in flocks both as performers of the duty of pilgrimage and as visitors. Sound moral values, an aptitude for trade and a sense of adventure have combined to give this region of Saudi Arabia its unique nature.

The Najdis are the inhabitants of the Central Province of Najd, which stands at the heart of the Arabian Peninsula. The urban population of this region, which outnumber nomadic Bedouins, are still strongly attached to traditional patterns and modes of life. Saudi Arabia's capital Riyadh is located in the Central Province. Najdis were also known for their animal breeding and agriculture and they developed close relations with the people of the Eastern and Western Provinces through trading in agriculture and fisheries.

Settlements in the Eastern province of Saudi Arabia dates back to the most ancient of times. The original inhabitants lived in vast palm tree oases, such as Hofuf, known for its abundant water and fertile soil, or along the numerous seaports of the Arabian Gulf such as Al-Khobar, where people earned their living from fishing and trade. In this particular region of Saudi Arabia, an American Geological Mission discovered oil for the first time in 1938. The first tanker was loaded in 1939 laden with Saudi crude oil for international markets. Inhabitants of this region, known for its high mountains of Asir, enjoy rainfall throughout the year. They lead a stable life based on agriculture and animal breeding.

In any account of the development of the Kingdom of Saudi Arabia, the thread that binds all the parts together is Islam. Throughout the history of the Arabian Peninsula, from the time of the Prophet Muhammad, Islam has largely determined the history of the region. Indeed, Islam led to the emergence of the Arabian Empire, and unified the

Arabs not only in the Arabian Peninsula, but also from Asia to the Atlantic Ocean during the 7th and 8th century. King Abdul Aziz Al Sa'ud consolidated his control over the major parts of the Arabian Peninsula, until Saudi Arabia was officially proclaimed fully sovereign on 22 September 1932.

In unifying the Arab states into one cohesive nation, it was Islam, which was to weave the various Arab people together to form a fabric of nations. It was the strength of faith, rather than other factors, which was to enable King Abdul Aziz to found the Kingdom.

4.7.2 Values and the heritage of the Saudi society

The origin of values and culture in Saudi Arabia comes from the values, virtues and moralities contained in the Holy Qur'an. Thus, the most important characteristics that distinguish Saudi society from other world societies are the strict adherence to Islamic laws (Shari'a) as solid bases for all aspects of life within Saudi Arabia. The principle of social commitment to the fair and equitable distribution of the returns of the socio-economic development plans among all parts of the Kingdom has contributed to the country's sustained social and political stability. This factor is considered by local and international investors to be of key importance when comparing worldwide investment environments.

The country's traditional cultural and social values have remained intact and deeply entrenched, despite the great strides of growth witnessed by the Kingdom during the past two decades. The Kingdom's heritage remained unchanged.

4.8 Discussion on the key issues

Many Saudi family-owned firms are now facing a generation shift and will need to take legal steps to ensure continued business activity. Such firms may have to merge with other firms to become more competitive, so that some regulations may need to be changed and some form of institutional support may be needed for these companies to change their legal status while restructuring their activities.

The family business of Saudi Arabia is in the transitional stage moving from first generation to second generation. The current trend is to inject modern practice of management, leverage technology for competitive advantage and more dependence of business owner on professional managers. These changes are mainly due to globalisation and influx of multi-national companies (MNC's) in the local market.

The government is under pressure from international trade communities and WTO to liberalise the economy and give equal participation opportunities to the foreign firms, by withdrawal of subsidise offered to the private sector.

Many of the family owned firms, who have realised the threat of oblivion in the market due to advantage of economies of scale the MNC has and the resources at the disposal of MNC, have entered into joint ventures with such MNC to stay and have an identity in the market. This has also helped the family business of Saudi Arabia to have a global reach through MNC business partners. This shift in the business operations of family businesses has affected the family business philosophy and the perception of family business owners.

4.9 The challenges of the thesis

Looking into the previous chapters, one can appreciate the complexity of the problem as it consists of two dimensions and it is governed by two loops. The first is the internal environment, which plays a major role in setting the mission and vision of both family and business. The second is the external environment that suffers rapid change with the globalisation climate the world is going into. With all of the above, the Saudi Arabia environment has its own specificity.

4.9.1 Major problem areas in the Saudi Arabian family business

From the life cycle of family firms of Saudi Arabia, it is found that they are in transition from first generation to second and third. Majority of these firms were founded during the economic boom of oil in 1960's. Currently the second and third generation are stepping in control of these firms. Most of these firms have been managed by the founder owned based on his intuition and contact in business circles. An organised strategic planning process is completely absent. They survived most of their life cycle mainly due to government subsidises and protection of local trade by the government from the onslaught of foreign professionally managed firms. Moreover, the markets were growing due to high oil earnings of the state and high disposal income of the consumer.

The majority of the second generation in the family business lack professional education and expertise of running these family firms. They have had formal training from their elders of the family, founder member and other non-family managers working for the family business. This makes the second generation less capable of handling such family firm. The lack of capability among the offspring has made the founder members, hesitant on the issues of succession and this is one of the major conflict areas in the family businesses of Saudi Arabia.

There is no documentation of family constitution, which governs the behaviours of family participants in the business and also establishes the rules that help in governing the family business. Majority of the family firms in the Kingdom do not have this documented constitution and in fact, most of them are not even aware of it. The family councils govern majority of the family members and family business.

The external markets of Saudi Arabia are undergoing rapid changes in term of policy shifts of the government, international trade organizations pressure on the government to liberalise the markets, unemployment and influx of major international business giants in the local market of Saudi Arabia. These changes in the external environment, coupled with cultural shift in the family have created serious problems for the family firms of Saudi Arabia.

Most of the family businesses in the Kingdom have not geared up for the change and the organization culture lacks philosophy of constant change adoption.

Majority of the families view the family business as a legacy of the family and a source of income for the family members. This creates a huge burden on the resources of family business.

The families lack a unified vision for the business.

The eldest son succeeds majority of the family businesses. This has led to a subtle and implicit dissent among other family members, which lead to a chain reaction of conflict of interest, non-cooperation among family members and lack of communication among the members.

- Some of the reasons for conflict in the family owned firms of Saudi Arabia are:
- Confusion of family and business roles.
- Different personal ambitions of family members.
- Conflict due to different family and business roles.
- Conflict can occur regarding sharing of power.
- Conflict for succession.
- Conflict occurs when members overstep personal boundaries.
- Conflict occurs by ineffective ways of managing emotions.
- Conflicts can occur when traditions and norms of family are broken.
- Family myths and assumptions that individuals, especially offspring make about what they can expect and what is fair in the family but each person may interpret them differently. The differences will be the basis of their actions and can lead to conflict.
- Poor communication within the family can lead to conflict.
- Leadership style in the family business can lead to conflict.
- Resistance to change can cause conflict.
- Lack of responsibility and accountability among the members of family can lead to conflict.
- The competition for resources and clash of goals can create problems, and the way family members deal both with competition and conflict may also create problem in business.
- Expectations are a big problem and perhaps chief problem of many family businesses. The expectations are developed by the family members and by the surrounding social environment, relatives, friends, workers, customers, suppliers and more. There is an expectation gap between what the business is capable of offering, and the expectation of individual members of family from the business.
- Growth usually forces the family owned business to re-evaluate the management structure and employee practices. With growth, non-family members are

employed and the business begins to form a hierarchical structure in the company may be unable to adapt to the growth of the organization. Relations who had no management direction earlier find it difficult to cooperate in subordinate roles with non-family executives.

4.9.2 Problem definition

The literature available on the family business is focused more on the western Far East Asian countries family owned businesses. There is little literature evidence on the dynamics, functioning and strategic planning process of Saudi Arabian family businesses. Majority of the businesses in the Kingdom are family owned and the families are involved in trade activities, prior to the oil boom in the country. The unique feature of the family businesses of the Kingdom is the cultural heritage of the families and tribes, which has a high influence on the functioning of the family businesses.

The current research is an attempt to study the functioning of family businesses of Saudi Arabia and also study the strategic planning process carried out in such firms. The study of family businesses is still relatively new. The scholarly work began with consultant case description of family firms. In the last few decades, researchers from management and organizational sciences have begun to apply their models from organizational behaviour, strategy, human resource management and finance to smaller sized or privately owned companies. At the same time, consultants have begun to apply concepts such as differentiation, or disengagement and triangles to the subgroup of families who have business. The contributions of these scholars and practitioners as well as the work of sociologist, accountants, lawyers and historians have begun to coalesce models of family business.

The study of family businesses as systems in the early days focused mainly on the typical problems that appeared to hinder family firms, such as nepotism, generation and sibling rivalry and unprofessional management. The current studies of family business firms are more focused on the dynamics, interrelations, family constitution and councils and other forms of family forces that interact among the forces of family and between the family and business entity.

No Model has described the strategic planning process of a family owned business in total, in light of the external market forces and the unique framework of internal dynamics of a family owned business. In the current markets of rapid change, cross border strategic alliances and technological innovations binding organizations in real time transactions and information exchange, the family businesses are at cross road, trying to catch up the survive with the change and at the same time maintain the cultural heritage and value systems of the family.

Saudi Arabian businesses are in the process of a shift in the market environment, with the government moving from an oil-based economy, to an industrialised nation. Government subsidies have been reduced, private organizations are encourage to participate in international trade through partners and the Kingdom laws have been de-regularised to attract more Foreign Direct Investment (FDI) in the Kingdom. Along with the rapid changes in the external market environment, there are changes in the family structures too. Most of the family businesses established in the Kingdom were during the period of oil boom economy in the mid 1960. Most of the businesses are now in the process of shift from the first generation to second or third generation. The cultural values have also shifted a little and most of the families now are nuclear in structure compared to joint patriarchal type about 30 years ago. These changes and the market conditions have forced the family business to re-align restructure and plan strategically for the future survival and growth. These factors have made imperative that the family business plan strategically for the business and the participation of families in the business with more commitment and seriousness.

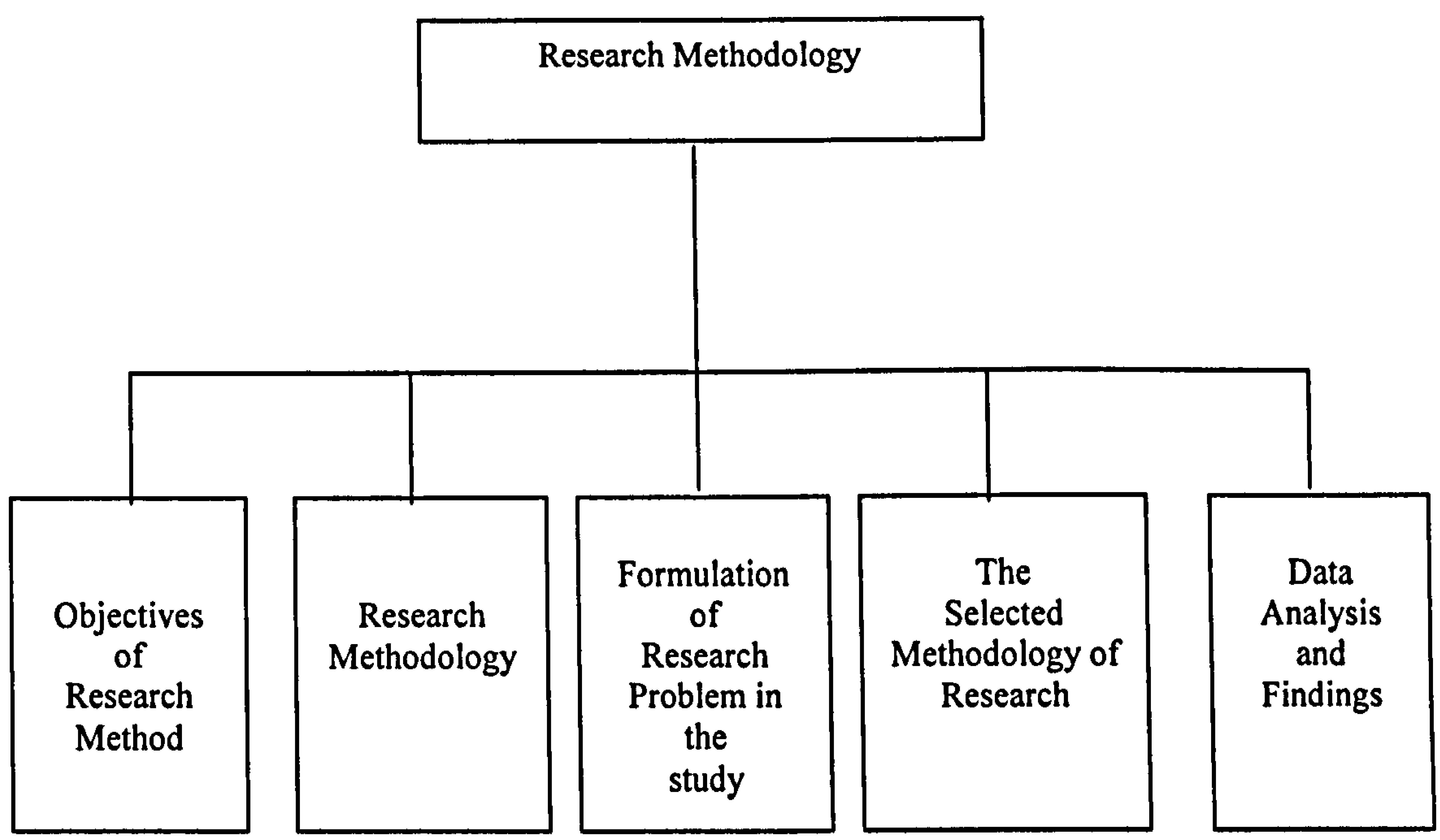
The present research was carried out with these basic deficiencies a family business is currently facing in the Kingdom. The main objective of the research was to define a model of strategic planning process, which not only considers the external market factors and internal family dynamic factors, but also consider the importance of culture, which the family possess and is the main force that directs the behaviour of family members. Very few models have considered the importance of family culture, traditions and value systems in the functioning of a family owned business, while this is the most vital and critical factor that governs the individual and collective family participation in the business.

The study attempts to analyse the critical factors of family business dynamics in Saudi Arabia and is a sincere effort in developing an ideal strategic planning model for such firms in the Kingdom.

To understand the problem more clearly key problem areas have been identified, which form the basis of this research. They are the precursors for the study was to identify the major challenges and problem faced by the family firm of Saudi Arabia. The initial efforts of the research were directed to identify the major problem faced by the family firm of Saudi Arabia. Some of the problem areas identified and discussed broadly in this section are mentioned below. A detailed research was conducted which has been mentioned in the following chapter, which addressed their problem areas, while formulating a strategic planning model for the family firm of Saudi Arabia.

CHAPTER

5 RESEARCH METHODOLOGY



Research is an original contribution to the existing stock of knowledge making for its advancement. It is the permit of truth with the help of study, observation, comparison and experiment. In short, the search for knowledge through objective and systematic method of finding solution to a problem is research. As such the term research refers to a systematic method consisting of enunciating a problem, formulating a hypothesis, collecting facts or data, analysing them and data forming conclusions either in the form of solutions to formulate problems or generalized theoretical formulation.

5.1 Objectives of the research methodology

The purpose of research methodology is to discover answers to questions through application of scientific procedures. However, each research study has its own specific purpose, research objectives can be divided into the following groupings:

- To gain familiarity with a phenomenon or to achieve new insights in it. Studies with this object in view are termed exploratory or formative studies.
- To portray accurately the characteristics of a particular individual situation or a group. Studies with this object in view are known as descriptive studies.
- To determine the frequency with which something occurs or with which it is associated with something else. Studies with this object in view are known as diagnostic studies.
- To test a hypothesis of a casual relationship between variables. Such studies are known as hypothesis-testing studies.

The main objectives of the research methodology are:

1. To identify the methods adopted by the family business of Saudi Arabia in the strategic planning process of their firms, i.e. to identify the dynamic relationships existing between the family, the business and the factors that affect the strategic planning process in their firms.
2. To focus on the relationships existing between the family and business, the factors that shape the family participation in the business, their influence on the business and the strategic planning process.
3. To develop a model of strategic family business planning, specifically customised to the needs of Saudi family businesses – a model that includes the major factors of family and business entities that shape the strategic direction of the firm.

5.2 General research methodologies

This section discusses the types of research, the research methodology and sample design methods.

5.2.1 Types of research

5.2.1.1 Descriptive versus analytical

Descriptive research includes survey and fact finding inquiries of different kinds. The major purpose of descriptive research is description of the state of affairs, as it exists at present. In social and business research, the term "Ex Post Facto Research" is used for descriptive research studies. The main characteristics of this method are that the researcher has no control over the variables. He can only report what has happened or that is happening. These studies also include attempts by researchers to discover causes even when they cannot control the variables. The methods of research utilised in descriptive research are survey methods of all kinds, including comparative and correlation methods. An analytical research on the other hand, the research has to use facts or information already available and analyse these to make a critical evaluation of the material.

5.2.1.2 Applied versus fundamental

Research can be either applied or fundamental. Applied research aims at finding a solution for an immediate problem facing a society or an industrial or business organisation, whereas fundamental research is mainly concerned with generalisation and with the formulation of a theory. Thus, the central aim of applied research is to discover a solution for some pressing practical problem. Whereas basic research is directed towards finding information that has a broad base of application and thus add to the already existing organised body of scientific knowledge.

5.2.1.3 Quantitative versus qualitative

Quantitative research is based on the measurement of quantity or amount. It is applicable to the phenomenon that can be expressed in term of quantity. Qualitative research on the other hand is concerned with the qualitative phenomenon that is relating to or involving quality or kind. Qualitative research is especially important in the behavioural sciences, while the air is to find out how the people feel or what they think about a particular subject or an institution. This research is particularly important in behavioural sciences while there is an attempt to find the underlying motives of human behaviour. **Wong [1992]** identified some disadvantages of this methodology as follows:

- Focusing on social structure without addressing the social process itself.
- Over simplifying and abstracting the subject matter.
- Insularity from the real context of the problem under investigation.
- The emphasis in qualitative research tends to be on individual interpretation of their environment and of their environment and of their own and other behaviour.

Qualitative techniques are not concerned with measurement; they are more responsive to need of respondents and to the nature of the subject matter enabling the researcher to understand the situation at first hand **[Wong 1992]**. There are many occasions when qualitative methods are used when there is insufficient or inadequate theory on which to ground. Examples of this include when a survey has already been conducted but has produced confusing results, or when the subject of inquiry inherently complex and understanding of this complexity is part of the research brief. According to **Wacker [1985]**, qualitative methods yields large volumes of exceedingly rich data obtained from a limited number of individuals and whereas quantitative approaches necessitate standardised data collection. Qualitative research exploits the context of data to enhance the value of data **[Aaker et.al. 1998]**.

5.2.1.4 Conceptual versus empirical

Conceptual research is related to some abstract idea or theory. Philosophers use conceptual research when generating new ideas or when interpreting existing ones. Empirical research relies on experience or observations.

5.2.2 Research methodology

Research methodology is a way to systematically solve the research problem. The researcher not only need to know how to develop certain inquiries or tests, how to calculate the means, mode, median and other statistical analysis, but he also need to know which of these methods and techniques are relevant and which are not and what they mean and indicate. The research methodology has many dimensions and reliable methods constitute a part of the research methodology. Another factor to consider when choosing among research methods, the researcher must consider the amount of rigor required. Rigor is used to refer to the extent to which the method employed strictly adheres to the fundamental requirements of research design. **The Random House Dictionary of English [1970]** identified three levels of rigor as explained in the sections below.

5.2.2.1 First level of rigour

This level embraces those methods, which offer a qualitative and narrative approach to the analysis of variables. Such methods offer minimum scope for classification and enumeration of the variables studied. Such method includes authoritative opinion, the single case study and narrative history.

5.2.2.2 Second level of rigour

At this level, measurement, particularly in a quantitative form, becomes important. These methods include survey, research, longitudinal or time series analysis and uncontrolled experimentation. The emphasis is on measuring and manipulating certain variables and their relationships to one another, usually such methods enable us to argue that something is related to something else. They seldom allow the researcher to establish a causal relationship.

5.2.2.3 Third level of rigour

At this level, the research is considered with manipulating variables in order to test for causal relationship, to seek out those variables that have critical or important impact on what is being studied and the key relationship involved. Thus, if the research aims to establish why something occurred, then research methods at this level of rigor are necessary. This involves experimentation in a controlled field setting. The important thing in selecting a research method is applicability and most appropriateness. There is flexibility in selecting the most appropriate method for the research project. Thus, a researcher can combine more than one research method to get the most out of the situation being researched.

According to **Maanen Van [1997]**, different approaches may be applied at different parts of the research to collect information, as the approaches are not necessarily mutually exclusive.

In this study, various research methods have been used at various levels, to achieve a balance of breadth and rigor. This combination of methods is called triangulation research strategy.

5.2.3 Sample design

A sample design is a definite plan for obtaining a sample from a given population. It refers to the technique or the procedure the researcher would adopt in selecting items for the sample. Sample design lays down the number of items to be included in the sample. A sample is a subject of elements from a population **[Aakel et.al. 1998]**. **Sekaran [2000]** defines sampling as the process of selecting a sufficient number of elements from the population so that by studying the sample and understanding the properties or characteristics of the sample subject, it would be possible to generalise the properties or characteristics of the population elements.

There are different types of sampling designs, based on two factors, viz.: on the representation basis, the sample may be probability sampling or a non-probability sampling. Probability sampling is based on the concept of random selection, while non-probability sampling is non-random sampling. On element selection basis, the sample may either be unrestricted or restricted when each sample element is drawn individually from the population at large, then the sampling so drawn is known as unrestricted sample, whereas all other forms of sampling are covered under the term restricted sampling. The types of sampling designs are described in the following sections.

5.2.3.1 Non-probability sample

Non-probability sampling is that sampling technique which does not affect any bias for estimating the probability that each item in the population has been included in the sample. It is also known by different names such as deliberate sampling, purposive sampling and judgment sampling. The judgment of the organisers of the study plays an important role in this sampling design. In this design, personal element has a great chance of entering into the selection of the sample. The investigator may select a sample, which shall yield results favourable to his point of view and if that happens, the entire study may be violated. Thus, there is a risk of bias entering into this type of sampling technique.

5.2.3.2 Probability sampling

Probability sampling is also known as random sampling or chance sampling. Under this sampling design, every item of the universe has an equal chance of inclusion in the sample. It is a blind chance alone that determines whether one item is selected. The results obtained from random sampling can be assured in terms of probability. Random sampling ensures the law of statistical regularity, which states that if on an average the sample chosen is a random one, the sample will have the same composition and characteristics of the universe.

5.2.3.3 Stratified sampling

The population from which a sample is to be drawn does not constitute a homogenous group. Stratified sampling technique is generally applied in order to obtain a representative sample. Under stratified sampling, the population is divided into several sub population that are individually more homogenous than the total population and the item are selected than each stratum to constitute a sample. Since each stratum is more homogenous than the total population, the research is able to get more precise component parts and a better estimate of the whole is achieved.

5.2.4 Triangulation methodology

Denzin [1970] defines triangulation as "the combination of methods in the study of the same phenomenon". Triangulation is also described as multi method or multi trait or convergent validation. It is seen as complimentary qualitative and quantitative methodologies rather than competing approaches (**[Jick, 1979]** and **[Fielding and Fielding, 1986]**). **Atkinson et.al. [1990]** see the role of triangulation as strengthening qualitative research findings by combining participant observation, interviewing and documenting source. **Smith [1975]** advocates multiple methods to address the same problems on the basis that in this way different methodological strengths and weaknesses will be cancelled to produce findings that are more convincing. In addition, **Mason [1994]** states that triangulation allows a holistic picture to develop. It is useful in capturing a more complete, holistic and contextual portrayal of the topic under study. Triangulation enriches our understanding by allowing new and deeper dimensions to emerge **Jick [1979]** stated that more than one method should be used in the validation process to ensure that the variance reflected that of the traits and not of the method. Thus, the convergence or agreement between two methods enhances our belief that the results are valid and not a methodological artefact. **Sekaran [2000]** emphasises the need for more method of data collection as almost are data collection methods have biases associated with them. Therefore, collecting data through multi methods and from multiple sources enhance rigour in research. If the responses collected through interviews and questionnaire are strongly correlated with one another then we will have more confidence about the reliability of the collected data.

5.3 Formulation of the research methodology adopted

A research problem in general refers to some difficulty, which a researcher experience in the context of either a theoretical or a practical situation and wants to obtain a solution for the same. The components of a research problem include:

- There must be an individual or a group, which has some difficulty or a problem. There must be some objective to be attained. If one wants nothing, one cannot have a problem.
- There must be alternative means (or the courses of action) for obtaining the objectives one wishes to attain. This means that there must be at least two means available to a researcher for if he has no means of choice, he cannot have a problem.
- There must remain some doubt in the mind of a researcher with regard to the selection of alternatives. This means that research must answer the question concerning the relative efficiency of the possible alternatives.
- There must be some environment to which the difficulty pertains. Thus, a research problem is one, which requires a researcher to find out the best solution for the given problem, i.e. to find out by which course of action the objective can be attained optimally in the context of a given environment.

5.3.1 Rationale for the tools used in Stages 1 and 2 of the research

Data collection:

The tool used for primary data collection in Stages 1 and 2 of the research was personal interviews based on a structured questionnaire. The rationale for using this approach is purely from a practical point of view as argued below:

- The respondents have limited time as they are senior members of the family and rarely have time for research activities like this.
- Every question had to be explained in some detail.
- The data collected can be readily analysed using standard statistical tools.

Data collection was done over a period of time. The statistical tools used to analyse by data collected in Stage 1 and 2 of research were:

- Frequency distribution
- Model distribution
- Variation Ratio
- Index of Diversity

The statistical tools of frequency distribution and model distribution helped to identify distribution of responses for the given factors. It helped in identifying the general trend and common features of a family owned businesses. They mainly helped in understanding the functioning of family businesses in Saudi Arabia. The response of the frequency and model distribution table helped in identifying critical factors and therefore formulating the strategic planning process in a family owned firm.

The Variation Ratio and Index of Diversity helped in identifying the spread of responses on a scale of 1to 3, which indicated the perceived importance of a family owned firm, by a respondent. The Variation Ratio and Index of Diversity are established statistical tools to analyse the central tendency and spread of a response on a validation scale. The Variation Ratio and Index of Diversity were therefore used in this research for the data analysis of Stage 1 and 2 of the research.

5.3.2 Research problem

The study attempts to study the strategic planning process in the family owned businesses. The study is localised to the family businesses of Saudi Arabia. The generic difference between a families owned businesses and a non-family businesses are the structural components, which influence the existence objective of the firm and its dynamic nature. A non-family owned business has only two major components, the management and the business factor. On the other hand, a family owned business has a third additional dimension or structural component, namely the family that owns the business. It is the main guiding factor for the very existence and continuance of the business.

The external environments in which both the types of businesses compete are almost the same, except for the internal dynamics and objectives of owners. Yet the strategic planning process, in light of external consideration and opportunities and internal strength and weaknesses is very different in family and non-family organizations.

The study attempts to study the strategic family business planning process followed in the family businesses of Saudi Arabia. Identify the factors from the family business and personal dimensions that affect the strategic planning process and a model to streamline the strategic family planning process in the family owned business of Saudi Arabia.

The research methodology can be described in the following points:

- Analyse the strategic planning process adopted by the family businesses of Saudi Arabia
- Identify the major factors in family business and personal dimensions of a family business that have an influence on the strategic planning process of a family business.
- Identify the common factors of the family businesses of Saudi Arabia.
- Identify the features of family businesses that make them adaptable to the changes in the external environment and the common business environment of Saudi Arabia in which the family businesses operate.

- Develop a model of strategic business planning, customised for the family owned businesses. The model would identify the lacunae of critical factors considered necessary for the family businesses, suggests remedies and an ideal strategic plan that would capitalise the resources of a firm.

5.3.3 The selected research methodology

The literature review from the previous chapters indicates that there is no organised method to assess the strategic family business planning. The uniqueness of the family business is the involvement of family and personal factors of individual members dimensions various authors like Ward, Taiguiris and Davis have suggested various models which describe the various forces or components of a family business, that can affect the strategic planning process in family owned firms. No clear advantages of a single model have been defined and established in the literature. Moreover, no earlier research has been carried out in Saudi Arabia to study the dynamics and strategic planning process of the family business of Saudi Arabia. The models of strategic planning developed by various authors fall short of implementation in Saudi Arabia mainly due to the cultural differences and differences in the business environment of western countries and Saudi Arabia.

As indicated earlier in the literature survey, there have been no documented studies on the family business, dynamics and functioning in Saudi Arabia. As indicated earlier in Chapters 2 and 3, more than 90% of the private sector businesses in the Kingdom are family owned. They are involved in various segments such as trade, petrochemicals, banking, automobile and sealers or agents of many multinational companies. They contribute about 75.6% of the non-oil GDP of the Kingdom. Currently the number of registered family businesses in the Kingdom stand at 8,804 companies by the year-end of 2000, compared to 923 in 1970. There has been steep growth in the number of family owned businesses within a span of 30 years. One of the major drawbacks or the limitations of the study was the non-availability of data on the family businesses of Saudi Arabia. The primary data had to be collected in order to understand the structure, composition, dynamics and operational methodology of family business firms in the Kingdom.

5.3.4 Graphical illustration of the research methodology

Figures 5.1 and 5.2 give flow charts outlining the research methodologies carried out in Stages 1 and 2 respectively. They map the primary data collection with the help of questionnaires, the statistical analysis carried out on the data and the outcomes of the research, the critical factors that shape the strategic planning process of a family owned business in Saudi Arabia. The mapping helps in systematic understanding of the steps carried out during the course of research, to identify the critical factors that shape the strategic planning process in family owned firms of Saudi Arabia.

Figure 5-1. Mapping of research methodology (Stage 1)

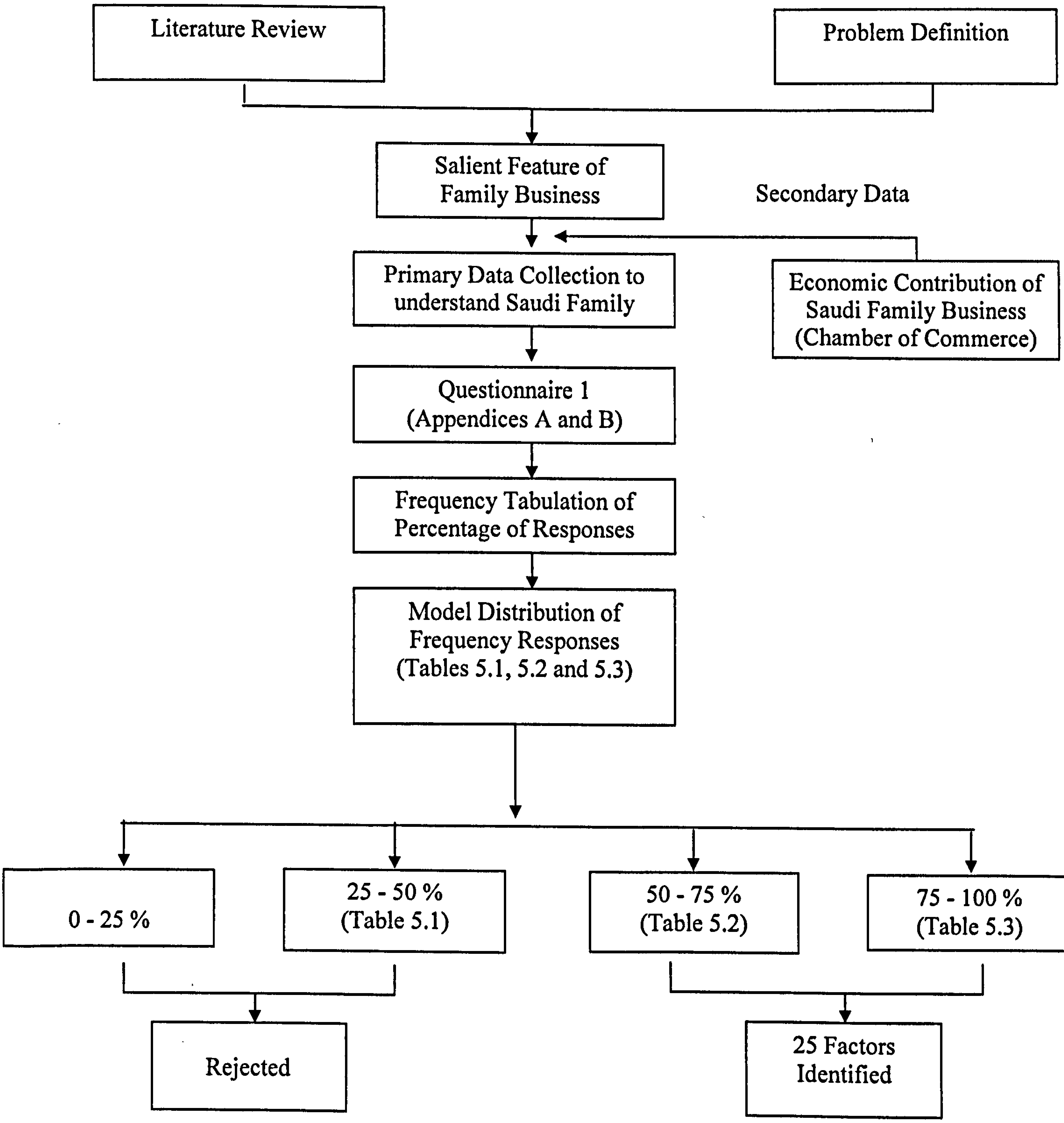
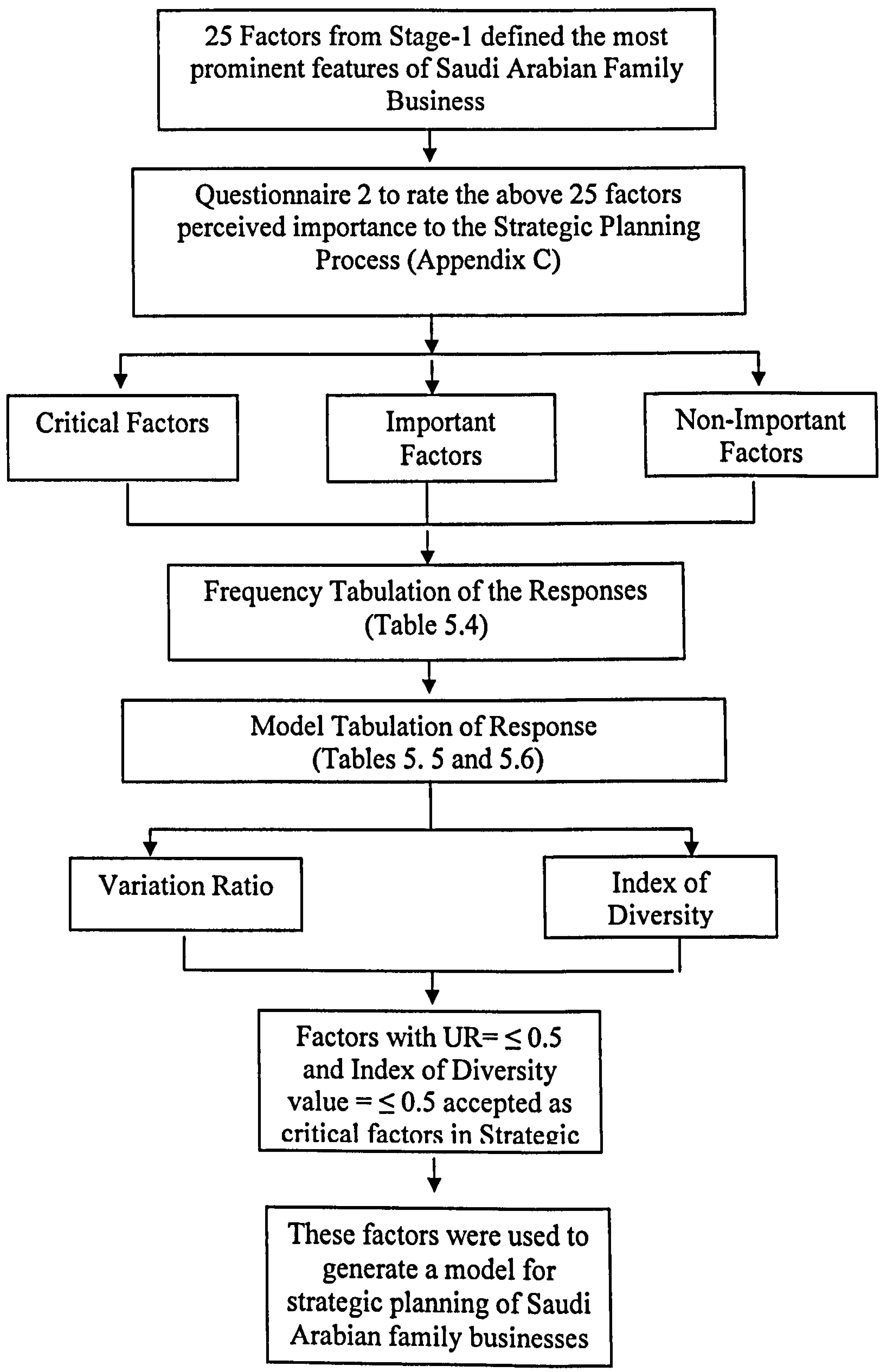


Figure 5-2. Mapping of research methodology (Stage 2)



5.3.5 Primary data collection

The primary data about the family firms of Saudi Arabia collected was of two types. The first was the economic contribution, social contribution and industrial development contribution data of the family owned business to the Kingdom. This was collected by survey method and by means of personal interviews with many government officials in the Ministry of Planning, Chamber of Commerce, financial institutions, Ministry of Interior, academicians from various universities and officials of the Royal Commission. The data gathering on the above-mentioned factors was difficult to obtain, owing to the secrecy of operations of many government agencies and much of the information is not available to the public by the directives and policy decision of the government. However, the officials were highly appreciative and supportive of the research and they did their best to facilitate the primary data collection. If any major economic indicators are missing in the course of the study, it is may be considered as one of the limitations in sensitive data gathering in the Kingdom. The second type of primary data was mainly focused on the operation of family owned firm and their dynamics. As a part of multistage research, the first step was to identify and study the functioning of family business in Saudi Arabia.

To gather information, the first step was to design a questionnaire, which was the main research tool. The data collected in Stage 1 was mainly to understand the dynamics of family businesses in Saudi Arabia. The questionnaire was aimed at gathering vital information about the family businesses of Saudi Arabia in some of the following aspects based on the author experience:

- Family structures and forms of ownership in the family business of Saudi Arabia.
- The emotional attachment of family with the business, the family commitment and vision of the family towards the family business.
- Major factors or forces that guide the relationship of family members and their motivation towards the family business.
- The style of plans formulated on the family and business dimension. Their frequency and methods of formulation, implementation and feedback.

- To identify the major factors in family and personal dimension that influence and the strategic family business planning at the firm.
- Major performance indicators and forces in the external environment that affect the strategic family plans and are considered to analyse the profitability of family business.
- Family constraints such as conflicts, their management procedure, sibling rivalry, succession planning management and family core values and conditions in the family business of Saudi Arabia.

The above-mentioned factors were considered as main areas of family business operation, on which primary data was to be collected. These factors were arrived at based on the literature review of family business operation documented and deduced from the problem definition section mentioned earlier in the previous chapter.

A detailed questionnaire with open-ended questions was designed which dwell more on the above-mentioned aspects. This questionnaire was administered to the family member who currently owned the firm and was active participant in the functioning of the firm. Prior to administering the questionnaire, a market segmentation study was conducted on the data of family firm in the Kingdom gathered from Chamber of Commerce, Dammam, Saudi Arabia to identify the market segments in which the family businesses operated and their legal status.

5.3.6 Primary data collection tools

The main methods of data collection for the study were questionnaire survey, semi structured interviews and informal open interviews and discussion. Different forms of analysis were carried out on the data collected by the above-mentioned tools. These tools were used in different stages of research.

5.4 Stage 1 questionnaire

5.4.1 Respondents of Stage 1 questionnaire

The respondents in Stage 1 were owners and active members of family business in Saudi Arabia. Based on the market segmentation analysis, the number of family business in various sectors was identified. The respondents were randomly selected from various sectors, such as to get a uniform data about family businesses. The respondents were selected randomly from the list of names. Prior to administration of the questionnaire, it was crosschecked if the respondents had an ownership in the family business and if they are actively participating in the business. This criterion was used mainly because an owner is assumed to have an emotional attachment with the family business and if he were actively participating in the family business, then he would have a clear understanding of both family and business factors, though not in truly technical terms.

5.4.2 Objective of Stage 1 questionnaire

The main objective of Stage 1 questionnaire was to gain an understanding of functioning and dynamics of family businesses in Saudi Arabia.

5.4.3 Design of Stage 1 questionnaire

A detailed questionnaire, with open-ended questions was designed which included on almost every key aspect of family business, discussed earlier in the literature review chapters. The respondents were contacted initially by phone and subsequently interviewed. They were assured of secrecy and confidentiality of personal information and that all data captured was used strictly for academic purpose. Upon their acceptance to be a part of the study, they were given the questionnaire. The questionnaire was divided into three parts. The first part gathered information about the business operations of the family business. The second part about family dynamics and relationship, and the third part about the personal perceptions of the respondents about the major factors of family business and family relationships. The questionnaire was divided deliberately into three parts and each part was administered at different time interval and in different sittings. The questionnaire was tested on a sample group of owners of a few small family businesses, which were not part of the study program, to check its reliability and relevance. The pre testing involved checking the Questionnaire for reliability and relevance. It also checked the case of filling the Questionnaire, understanding of language and checking and correcting grammatical mistakes. Stage 1 questionnaire 1 is given in Appendix A.

5.4.4 Response rate for Stage 1 questionnaire

A sample size of 100 respondents were selected randomly from the earlier market segmentation study, such that al least one respondent from every market segment was selected. During the course of study, 20 respondents dropped midway due to personal reasons, which they stated as lack of time and travelling. 20 questionnaires were incomplete in various stages; hence 80 questionnaires were completed in all respect. A response rate of 80%. These 80 questionnaires formed the basis of the study in this part of the research.

5.4.5 Administration of Stage 1 questionnaire

The respondents answered the questionnaires in a series of meetings. The responses were recorded verbatim for further analysis. Each part of the questionnaire was administered over a period of two weeks. The personal part of the questionnaire and the family part of the questionnaire was administered only when the respondent had enough confidence in the interviewer and trusted the confidentiality. This was done mainly to keep to respondent as comfortable as possible and get the true representation of facts. The questions did not include any technical parts. There were no leading or loaded questions. Major issues considered vital for a family business, which were identified from the literature review and earlier models, are put to the respondents in various forms and in different wordings and in different meetings. This is to ensure that the respondent is not biased and gives misleading facts. The questions were asked in general spoken language in a very informal tone and atmosphere.

5.4.6 Data analysis of Stage 1 questionnaire

The data collected in Stage 1 of research have been subjected to statistical analysis including central tendency and variation analyses.

This form of analysis led to the identification of critical factors or trends of family business, those are unique to the Saudi Arabian culture. The overview of analysis indicated a different pattern of family business dynamics compared to other European and Western family business studies published, which have been discussed in the Literature Review. Some of the differentiating factors noted were the deep-rooted family values, traditions and customs in the functioning of the family businesses. The other notable feature was the succession planning and the conflict management, which was different compared to other published studies. The family business had a patriarchal culture and the head of the family had immense control on the other family members. The Islamic Sharia law strictly governed the rules of profit distribution. Families had a high degree of commitment towards the business and tax distribution was again based on the Islamic principle of ZAKAT. The findings of Stage 1 research are tabulated in Tables 5.1, 5.2 and 5.3.given below.

Table 5-1. Model frequency based on percentage response to Questionnaire 1. Model distribution: 25 – 50%

(BF: Business Factors, FF: Family Factors, and PF: Personal Factors)

Question No.	Frequency	% Frequency	Factor (Total Number of Respondents = 80)
FF 2	26	33%	2-4 members of family working in the family owned business.
BF 8	37	46%	None of the family members working outside the family business.
BF 16	38	48%	Strong management is core strength of the family.
BF 16	36	45%	Market share & distribution channel are core strengths of a family business.
BF 16	37	46%	Experience of family business is core strength of the family.
BF 16	27	34%	Control of head of the family is core strength of the family.
PF 10	27	34%	Family member should not have his or her own business apart from family business.
PF 1	21	26%	Founder motivated the offspring to join family business.
PF 3	22	28%	Founder discussed business with family members at home to motivate them to join family business.
FF 8	38	48%	The family business constitution contained rules of decision making in business.
FF 9	38	48%	Family business constitution formulated by a consultant.
BF17	21	26%	Founder delegated authority and responsibility to the successor.

Table 5-2. Model frequency based on percentage response to Questionnaire 1. Model distribution: 50 – 75%

(BF: Business Factors, FF: Family Factors, and PF: Personal Factors)

Question No.	Frequency	% Frequency	Factor (Total Number of Respondents = 80)
FF 6	59	74%	Families had a vision for the business.
FF 6	43	54%	Business is the identity of a family.
BF 16	43	54%	Business plans are set quality compared to long-term plans.
BF 14	41	51%	Families should meet and plan yearly for the family.
BF 15	44	55%	Unhealthy competition and govt. subsidies affect the family business.
BF 15	59	74%	Political environment negatively affect the firm.
BF 16	53	66%	Marketing a core competence of family business.
BF 16	48	60%	Technology a core competence of family business.
BF 16	56	70%	Family commitment to the family business, a core competence of family business.
FF 18	53	66%	Family values & culture core strength of the family.
FF 18	51	64%	Family unity & responsibilities are core strength of family.
FF 3	46	58%	Family members have freedom to pursue a career outside family business
BF 17	59	74%	Family managers should have more authority and responsibility compared to non-family managers.
BF 20	53	66%	Family managers have poor performance appraisal compared to non-family managers.

FF 12	44	55%	Family business owner prefer their offspring to join family business.
BF 21	41	51%	Founder trains the successor for business.
FF 10	55	69%	Head of the family resolves the conflict in family.
FF 4	46	58%	Sons have more shares compared to daughters.

Table 5-3 Model frequency based on percentage response to Questionnaire 1. Model distribution: 75 - 100%

(BF: Business Factors, FF: Family Factors, and PF: Personal Factors)

Question No.	Frequency	% Frequency	Factor (Total Number of Respondents = 80)
BF 10	73	91%	Family business firms do not have a business mission.
BF 12	69	86%	Family business does not have an organised strategic planning process.
BF 16	79	99%	Technology has affected the business operation of family business.
BF 16	63	79%	Financial strength is the core strength of family business.
BF 16	63	79%	Family reputation & goodwill is the core strength of family.
FF 8	80	100%	Family constitution should contain family vision.
FF 8	78	98%	Family constitution should contain conflict management.
FF 8	78	98%	Family constitution should contain profit distribution rules.
FF 9	67	84%	Family constitution is applicable for the family businesses of Saudi Arabia.
PF 11	71	89%	Eldest son succeeds the owner of family

			business.
BF 20	75	94%	Absence of performance appraisal in the family businesses.
FF 19	63	79%	Relative importance of family over business.

5.4.7 Data analysis results for Stage 1 Questionnaire

A model distribution of percentage response to the questionnaire of Stage 1 was done to identify the common features of family businesses of Saudi Arabia. Data about a firm's performance, capital investment, distribution network, profit distribution, industry segment of operation, global or local operations, etc. are segregated out separately. These factors only reflect the performance of a firm and do not constitute as critical factors in the strategy formulation process. Only the factors, which are unique feature of a family business, and factors which need qualitative assessment to identify their role in the strategic planning process of a family business are separated in the model distribution of questionnaire data. The results are shown in (Tables 5.1, 5.2, and 5.3). It was found during the analysis that none of the Questionnaire had a response rate of less than 25% for any given question in the questionnaire from the respondents. The responses to these questions were distributed between three model categories of percentage response. These categories were 25-50%, 50-75% and 75-100% response rate.

The total numbers of questionnaires distributed were 100. 80 completed questionnaires were returned. These returned questionnaires were coded and analysed statistically. Some of the major observations from the analysis of data from questionnaires are as follows: (The findings of Questionnaire 1 are diagrammatically shown in Appendix B)

1. 51% of the family businesses were started with a capital investment between 10,000 – 20,000 Riyals.
2. 43% started with less than 10,000 Riyals capital investment.
3. The current net worth of 43% of the family business is between 10 – 15 million Riyals, 28.75 between 5 – 20 million Riyals, and 14% between 5 – 10 million.

4. 21% of the family businesses are trading and contracting businesses, 18% are distributors, 15% in services and 11% in petrochemical businesses.
5. 36% of the family owned businesses in the Kingdom are partnership of father and sons, 26% between brothers and 20% of them are cousin's connection with many family members involvement in the business. 13% of the family businesses are sole proprietorship.
6. 68% of the family businesses have legal starters of private limited company, with the share divided among the family members. 13% of the family businesses are holding companies with the family owning shares in various businesses and 14% are sole ownership firms. The joint stock companies are negligible in the Kingdom. This is reflected in this research by 6% of the firms with joint stock legal status.
7. On an average 31% of the family members had a stake in the family business and among them on an average 43% of the families had at least 2 – 4 members of the family actively involved in the family business. 30% had 4 – 6 family members working for the family business. 22% of the families had at least one family member working for the business.
8. 62% of the family businesses had the second generation in control of the family business, while 38% of the family businesses were being run by the first generation. 23% of the family businesses had the third generation in control of the business.
9. On average, 46% of the families had none of the family members working outside family business. They were either active participants or passive participants but never worked anywhere outside family business. 25% of the families had at least 2 – 4 members of the family working outside the family business. The figures indicate that on an average most of the families considered the family business as a better career option rather than working outside the family business. Most of the families either actively or passively were bet of the family business or worked very little outside family business.
10. 91% of the family businesses did not have a formal written explicit or implicit mission statement. Only 9% of the family businesses in the sample had a written mission statement. Among their group of firms, 57% of the firms had their

mission statement formulated by the founder member of the family business. 14% of firms had the mission statement formulated by the functional managers or consultants of the firms.

11. 74% of the family businesses had a family vision for the business. Among them 58% of them perceived the family business as an identity of the family in the society. 20% felt the business was an ideal source of income for the family members. 10% of the family business felt the family vision and business vision were almost identical in their nature and objective.
12. 86% of the family businesses surveyed did not have any organised method of strategic planning mechanism for their firms. There was no organised planning method in the family business. The plans for the business organisation were mainly short term and 25% of the family business formulated them quarterly, 21% of them half yearly, 18% on monthly basis and 6% annually. A majority of them 24% of them formulated plans on an ad hoc manner, only if there was a need, recruitment on a major project for the firm.
13. Similar to short term plans for the business operation, the family also formulated short-term plans for the business. The family members on an average meet quarterly (29%) to plan for the family business. 26% of the family members meet half yearly on an average to plan for the business operations. 21% of the families meet every month to plan for the family business. Only 8% of the families meet annually to plan for the business. The figures indicate that on an average both the family and business plans of the family business are formulated quarterly and half-yearly. Long-term strategic plans are not formulated by the business and family both for business operation and family continuity in the family owned business.
14. 74% of the family owned business felt the political interference and the government policies of the Kingdom, negatively affected their business. They felt the frequently and unrealistic policy formulation of the government made the planning process of firms difficult. The most commonly cited example by the business organisation is the Saudisation plan of the government. According to this policy, the firms have to increase the manpower of Saudis by 5% every year. The

main hassle is the under trained Saudi youth, which still cannot replace the large expatriate population.

15. 89% of the family businesses rated the economic condition of the country as positively affecting the business organisations. The rising oil prices in the international market have increased the per capita income and at the same time increased, the consumer spending became of the savings from the income.
16. 61% of the family business perceived the social factors to affect the companies positively. The social factors included the social customs and traditions, which formed the basis of family values. The family businesses have strong cultural foundation of Islamic culture and tradition. This has been one of the major factors responsible for continued success of family businesses. Every family has strong value systems and every member is taught to respect the culture of the country. The culture has been the binding factor of many businesses and families.
17. Technology – 99% of the family business felt the technology changes have helped their business organisations in their growth. The rapid growth of information technology and communication has been implemented in the businesses, mainly to improve efficiency and effectiveness. The business organisations in the Kingdom have attained lower cost of operation and streamlining of business operations due to implementation of technology products and services of various maturity levels. The family businesses perceive the technological changes as having a positive effect on the business operations.
18. 55% of the family businesses in the Kingdom faced the problem of unhealthy competition. One of the major problems faced by the firms in Saudi Arabia is "vista", which means connections. Majority of the policy decision can be bypassed if there is a friendly relationship or acquaintances with the government officials in every department. Most of the family businesses complained that their competitor was under cutting their operation with vista or connections. Moreover, the large business organisations complained that the small organisation did not fall in the bracket of rules formulated by government for business organisations and in turn, they competed in the market with large organisations. They also dropped prices and created a dent in the market share of large organisations.

19. 41% of the family business owners perceived the family commitment value of the family systems the very strong core strengths of their business. 79% of the family business owner rated their financial strength as strong core strength of the family business. Another 70% of the family business owners rated their family commitment and family values as strong core strength. 45% of the family business owners rated their market share and distribution channel as strong core strengths. Overall the figures indicate that majority of the family business owner consider the family commitment, family value systems and emotional attachment to the business as their core strength of the family business.
20. 50% of the families in the study were nuclear families, with the children of offsprings having a separate family and the parents living separately. This also correlates with the earlier findings mentioned above that, the majority of the family businesses in the kingdom are a partnership of father, sons, and cousin. This also indicates a shift in the culture of Saudi Arabia where the family structures are mostly joint family structure in nature. The parents, children and grand children stay as one joint family. The study indicated a shift in this cultural aspect were most of the family business owners had a nuclear family structure. 36% of the family businesses still had a joint family structure and this is very large joint family with grand parents, parents, children and great grand children and cousins staying as one large family.
21. 79% of the family business owners considered the family reputation and goodwill as a strong core competency of the family, 64% considered family unity as the core competency of the family, 59% considered the family values and culture as the core competence of family, 47% considered the experience of family in the business as the core competence of family. Only 9% of the families considered their family constitution and 5% of them considered their family councils as the core strengths of the family. The figures indicate that the family core values and family unity are considered as core strengths of the family, and very few families have a family constitution and family council system. This indicates poor communication of business plans and family plans for the business among the family members.

22. 34% of the family business owners perceived the control of the head of the family or founder on the family members as the core strengths of the family, as it binds the family and there is unity of command and control in the family.
23. 58% of the family businesses offered freedom for the family members to select a career of their choice even outside the family business. 11% of the family businesses preferred their members gain outside work experience before joining the family business.
24. 34% of the family business did not permit the family members to have separate business apart from the family business, as they felt it would land to conflict of interest and commitment. 20% of the family businesses allowed their members to have separate businesses apart from a share in the family owned business. 19% strongly supported the idea of family members having their own businesses apart from a family owned business.
25. In 34% of the family owned businesses, the founder member groomed the offspring and in same cases provided basic business management education to make them capable of handling the family owned business. In 28% of the family businesses, the founder discussed the business at home with the offspring in order to motivate them to join the family owned business. In 15% of the family businesses, the founder owner inducted his children in the family business at a very young age to canalise their attitude and motivate them to run the family owned business.
26. 39% of the family business owners reported that they joined the family business mainly to continue the legacy of the family business tradition. 26% reported that they joined family business as they were motivated by the founder owner or parent. 16% reported that they preferred to join family business, as it was an easy career option. 18% reported they were forced to join the family business and 23% of the cases, the current owner was the only heir in the family, and hence he took the responsibility of family business.
27. 84% of the family business owner felt there was a greater need for family constitution and it was very much applicable to the family owned businesses of Saudi Arabia.

28. All the family business owners felt the family constitution should have the family vision for the business. 88% of the owners felt it should have rules regarding conflict management and method of profit sharing among the family members. 25% of them felt it should contain entry and exit rules of family members in business. 38% felt it should have established rules of succession planning and decision-making rules in the business.
29. Among the firms, which had an explicit family constitution, 38% reported that they took the help of a consultant to formulate the family constitution. In 25% of the firm, it was done by the active participating members of family in the business and by the founder members. In 13% of the families, it was collecting formulated by all members of the family.
30. In 89% of the family business, the eldest son succeeded after the owner. This was the main family tradition of succession. In 5% of the businesses, the business was equally divided among all the siblings with independent charge. In 4% of the family owned business, the most eligible successor was selected from among the siblings by the founder or collectively by all the other members of the family. In 3% of the cases, the family constitution had a succession plan.
31. In 89% of the family businesses, the succession transition was smooth and well planned. In 4% of the family businesses, there were conflicts related to succession and 2% of the cases there were major conflicts between owner founder and the siblings.
32. In 58% of the family owned business, the sons had sole profit share compared to daughters in the family. This was based on the Islamic culture factor which proposes 3/4th share to a women compared to men. In 11% of the family business, the founder owner distributed the shares according to his will and the family member's participation in the family business. In 31 % of the family owned businesses, every member of the family had equal share in the profit distribution.
33. 75% of the family owned business, the active participating members felt they deserved higher profit share compared to non-participating family members in the family business.

34. 60% of the family members in the family owned business were happy with the profit distribution mechanism in their family, which about 15% very unsatisfied and 6% highly unsatisfied.
35. 26% of the second generation and third generation members rated the owner of business as the one who delegates work to the active participating members of the family. 22% reported that the owner had little trust in the abilities of other family members working with him and had centralised command and decision-making. 14% of the family members rated the owner as the one who motivates them to join the family owned business and at the place of work.
36. 53% of the family members reported that they had cordial relationship with their brothers and cousins at the place of work in a family business, while 26% rated it as very satisfactory 21% rated their relation with brothers and cousins at the business as very non-satisfactory.
37. 78% of the family businesses reported that there was never a split in the business due to a family conflict.
38. 69% of the family business had the mechanism of head of the family member resolving the conflict among members of a family. In 23% of the family businesses, a collective family meeting or family councils resolved the conflicts among the family members.
39. 79% of the family business owners rated the family as more important compared to business and 9% rated the business as more important compared to family. 66% of the family owners agreed that family importance and attachment affects or influences their business decision-making process, while 26% strongly agreed that family had a strong influence on the decision making of business operations. They agreed that family importance is given priority by them while formulating business plans.
40. In 51% of the family businesses, the founder member trains and grooms the new successor before inducting in the family business. In 11% of the family business, a non-family managers train the successor and in 4% of the family business, the successor works outside the family business, before being inducted in the family business. In almost 23% of the cases, there was no organised method of successor training and induction in the family owned business.

41. 65% of the family members were satisfied with their work experience in the family owned business, while 11% were less satisfied and 9% were least satisfied while working for the family business.
42. 55% of the current owners of family business preferred that their offspring work in the family owned business rather than working outside the family business. They felt it was the responsibility of family members to continue the legacy of family in the businesses, as the business is the identity of family.
43. 96% of the family businesses of Saudi Arabia operated in the local domestic market and in the Gulf Region. Only 4% of the respondents had global operations.
44. 77% of the family business owners felt they delegated more authority and responsibility to non-family managers compared to family members, as they trusted their ability more than the family members did.
45. 67% of the family members felt the performance appraisal and reward system was least to the family managers compared to non-family managers.

One of the key observations from the data analysis is that a formal strategic planning process does not exist in majority of the family businesses. There are several reasons to this as discussed in the paragraphs below.

The business owners have complete control on the business operations. They have been used to ad hoc planning process for years. The functional managers only support them in the planning process, but most of the family business owners formulate the business plans. The firms do not have an explicit mission and vision statements. The planning process is based on the institution of the owner founder and his vast market experience and the trade skills passed down to the lower generation by the parents and founder owners of the business.

Family firms operate in an economy that is tightly regulated by the government. It has protection attitude towards the domestic industries. Saudi Arabia which is mainly an oil-based economy has been shifting towards industrialization, hence the government has been offering large amounts of subsidises to the business organisations in the Kingdom mainly to motivate more participation in the industrialization efforts of the Kingdom. These family businesses might face problems if they are not geared up to the new liberalisation policy of the government. The Kingdom earlier had strict control on foreign direct investment (FDI). Outside investors needed a local partner or sponsor to establish a business in the kingdom. The current policy of liberalisation does not force an outside investor to join in a partnership with a local business owner. The outside investor can 100% own a new business establishment in the Kingdom. This can seriously affect the family businesses in the near future. Most of the family owned businesses are in the trading and contracting business or as dealers and distributors of foreign establishments in the Kingdom.

The family businesses operate in an unstable environment. The political unsuitability of Middle-East has attracted little investment in the industry sector. Most of the outside investment is focused on oil exploration and petrochemical industries. The unstable political environment, frequent and sudden shifts in the policies of investment and business by the government and fluctuating international oil prices has affected the economy of the state and thus the external environment is highly dynamic and in a constant state of flux. Planning becomes difficult in such a situation, hence most of the business hours prefer short term planning based on short term tolerating or ad hoc planning bore on the need and projects in hand for the firm. The business owners in Saudi Arabia are more inclined towards short-term plans and ad hoc planning rather than long term planning. They have little confidence in long term planning mainly due to unstable external environment.

The family values, culture and traditions are strong core strengths of family in the family business. The inter relationships and communication among the family members is strongly based on the culture of family. The main observation in the study was the culture of family has a strong effect on the functioning of a family business.

Most of the family businesses do not have a family constitution or established norms of family councils. The rules governing the family are strongly patriarchal in nature and are not explicit. The family culture and value system has been governing the family participation in business. For example, the culture of eldest son succeeding the business affect the founder, profit sharing based on the Islamic principle of sons having more share compared to daughters and conflict management in the family by the head of the family are some of the implicit rules that govern the behaviour of family members and their participation in the business. Though there are resentments and conflicts in the family, they are not expressed outside as follows:

1. None of the families suffered a split due to a conflict among the siblings. Families have experienced major conflicts but did not split.
2. Majority of the families view the family business as a legacy of the family and a source of income for the family members.
3. Majority of the family businesses are father-son partnership.
4. Most of the current owners were motivated by the owner founder to join the business.
5. Most of the current owners also want their children to join the family business rather than work outside family business.
6. Majority of the family businesses acknowledge the importance of having a family constitution and established norms of family councils.
7. The family vision and business vision do not match in most of the family businesses of Saudi Arabia.
8. Majority of the family businesses are having a legal framework of limited liability and very few joint stock companies.
9. Majority of the family owned firms of Saudi Arabia lack the following:

- Family vision for the business.
- Business mission explicitly stated.
- An organised method of external environment scanning process. It is not holistic in nature and focused only on few parameters such as competitors.
- A regular internal assessment methodology. Only a few financial and non-financial performance indicators are monitored.
- A family constitution and family council.
- Conflict management and succession planning process.
- There is no retirement plan and retirement nest planning of the owner. The founder owner works for very long with the family business.
- No organised assessment of family business continuity plan.
- No organised planning process (long-term).

It is important to remember the key characteristics features of family business in Saudi Arabia in this context. They include:

- High cultural influence of family on the business operations.
- No performance appraisal mechanism for the family members in the business.
- Family members have the freedom to choose a career option outside family business.
- Family members are discouraged from having their own business operation apart from the family owned business, as it is considered clash of interest and commitment.
- The family members look upon family business as an identity.

5.5 Stage 2 of questionnaire

5.5.1 Objectives of Stage 2 of questionnaire

The objective of Stage 2 was to identify the “important” and “critical” factors that could affect the strategic planning process and functioning of a family business in Saudi Arabia.

The model distribution of the data shown in Tables 5.1 to 5.3 of Stage 1 research formed the basis for Stage 2 research. There were 12 questions in model distribution of 25-50% response (Table 5.1), 19 questions in model distribution of 50-75% response (Table 5.2) and 11 questions in model distribution of 75-100% response (Table 5.3).

The factors from model distribution tables of 50 – 75% and 75 – 100% were used for further analysis in Stage 2 of the research. The factors from these two model distributions were 30 (19+11). Some of the questions in the model distribution tables were found to be similar in identifying certain features of family business. They were grouped together as a single response. The total number of such factors recognised as common factors and selected to study their importance for the strategic family business planning are 25 in number. These factors demonstrated from the responses in the Stage 1 Questionnaire that they played a role in the family business operations, its dynamic and the strategic planning process of these firms.

In the second stage of research, the key aim was to identify the criticality of these 25 factors identified from Stage 1 in terms of their importance in the strategic planning process of a family owned business as perceived by the family business owners. A Questionnaire was designed to measure the perceived criticality of these factors in the strategic plans formulation and its effect on the family business of Saudi Arabia.

5.5.2 Design and structure Stage 2 of questionnaire

The basic design of the Questionnaire 2 used in Stage 2 was based on a Questionnaire design used by **Thiagarajan [1996]** and **Ramirez and Loney [1993]** used to measure the perceived importance of quality factors that play a role in TQM implementation in a firm. A similar questionnaire design was adopted to identify the perceived importance of factors, which influence the family businesses functions and their method of strategic plans formulation. The Questionnaire asked the respondents to rate a factor as critical, important or of minor important in the family business operations and strategic plans formulation in such firms. 25 factors selected from Stage 1 of research were rated by the respondents on a scale of 1 to 3, indicating their level of importance for strategic planning in a family firm, as perceived by them. A response of 1 indicated 'critical', 2 – important and 3 – as minor importance. The description of these factors on their relative importance is as follows:

1. Critical: These factors that are perceived as critical and essential. The strategy planning process for the family businesses would and up as failure if these factors are not part of the planning process.
2. Important. These factors are considered as important but not essential by the family business owners. The strategic planning process will survive if these are not addressed, but the organization may experience difficulties, and the family will have explicit or implicit conflicts and difficulties in the management process.
3. Minor Importance. The family business owners perceive these factors as minor importance. These factors will not seriously affect the success or failure of the strategic planning process in family owned businesses.

Stage 2 questionnaire is shown in Appendix C.

Thiagarajan [1996] states that analysis and interpretation of the responses to the questionnaire will then allow objective judgment to be used in identifying consensus on the level of perceived importance of the factors stated in a given Questionnaire. The analysis of such as Questionnaire would help in identification of factors considered critical and important by consensus for the strategic planning process. The Questionnaire contained simple statements of 25 factors screened from Stage 1 of research and the respondents were asked to rate their importance for a family owned business.

5.5.3 Stage 2 Questionnaire Administration

The Questionnaire designed to analyse the importance of pre-selected 25 factors which affect the strategic planning process of family owned businesses, was administered to the same sample of 80 family business owners who were administered the questionnaire in Stage 1. The Questionnaire was pre tested prior to administration, for errors, ease in answering and clarity of sentences and words.

An appointment was fixed with the respondents. The main objective of the questionnaire was explained and the respondents were asked to rate the importance of the pre selected 25 factors on a scale of 1 to 3. The factors were mentioned in the questionnaire as simple statements without any leading questions. They were assured of confidentiality of information provided by them.

5.5.4 Data analysis of Stage 2 of questionnaire

The percentage response of each question in the questionnaire was calculated (Table 5.4). A model distribution of the factors, which are rated as critical and important, is tabulated. From the 80 questionnaires, it was found that the respondents had rated some factors as critical, a few as important, a few of uniform distribution of responses to all three levels of importance. None of the respondents had rated the 'minor importance' factor with a higher frequency compared to other two factors of critical and important. Hence, the model distribution of frequency of responses was of two categories, "critical" and "important". The frequency of these factors are arranged in ascending order and shown in Table 5.5 and Table 5.6. In the next step, the Variation Ratio and Index of Diversity are calculated for critical and important factors.

5.5.4.1 Variation ratio

As distribution of data may have similar centres with different amount of variations, the organization of data into frequency distribution and calculating the point of central tendency will not provide a satisfactory description of the problem. **Weisberg [1992]** states that measuring centre finds the typical value for a variable, while measuring the variability or spread of the response distribution tells us how typical that value is. This highlights the importance of finding the variability (spread) of the distribution. According to **Weisberg [1992]**, there is no single agreed upon frequency-based measure of spread. It is therefore suggested to us several measures of spread rather than a single one (**[Levin and Rubin, 1994]** and **[Carlson and Thorne 1997]**). For metric variables the appropriate measure of spread are variance standard deviation. The other appropriate measures of spread are Variation Ratio and Index of Diversity. The Variation Ratio (VR) is the proportion of responses that do not fall into the model category. It is an appropriate measure of spread of data in the investigation. Variation Ratio (VR) is calculated using the single formula: VR = 1 – frequency distribution of mode. Unless the extent of consensus of the respondents on a particular factor of family business is not satisfactory, the spread of response is difficult to identify because of this Variation Ratio has been used to measure the spread in this study. Therefore, Variation Ratio can be computed to identify the extent of consensus on objective basis in identifying a critical factor, which affects the family business organizations. A value of zero will mean unanimity (all respondents rated a particular factor as critical for family business units). Values of 0.5 or less mean majority consensus while values more than 0.5 indicate no majority consensus in rating a factor as critical. However, the Variation Ratio does not take into account the full distribution of responses. The measure of spread that does take such an account is the Index of Diversity.

5.5.4.2 Index of diversity

The Index of Diversity is defined as a dispersion measure based on a proportion of responses in each category **[Weisberg, 1992]**. In mathematical terms Index of Diversity

$= 1 - (P^2 1 + P^2 + P^2.Pk)$ where Pk = the proportion of responses in category k and k is the number of categories. For example if 95% of the respondents rated a factor as critical, 3% rated it as important and 2% rated the same factor as minor importance, then the Index of Diversity is measured as:

Index of Diversity $= 1 - [(0.95)^2 + (0.03)^2 + (0.02)^2] = 0.10$

This index shows the degree of concentration of responses in a few large categories as squaring proportion emphasis the large proportion, much more than the small ones **[Weisbery, 1992]**. Thus, the Index of Diversity can be considered as a surrogate measure of agreement among the respondents concerning the response distribution of each of the factors. A low index value means general agreement on the importance of a factor, whereas high index value means general disagreement on the importance of the factor. This means that an index value close to zero will imply near unanimity. A value close to 0.05 is, when there is equal cluster (concentration) around two large categories. A near uniform distribution in the three rating categories will give a maximal value close to 0.06, which will mean high level of disagreement.

In the current analysis, after the model distribution of factors in critical and important categories, it was noticed that there were 17 factors rated as critical by the respondents and 8 factors as important by the respondents. The Variation Ratio and Index of Diversity for each of these factors are shown in Tables 5.5 and 5.6. Factors with a value higher than 0.5 in the Variation Ratio and the Index of Diversity are not considered as critical factors.

Table 5-4. Frequency Distribution of responses to the 25 factors perceived as critical, important and not important by the respondents

SRL. No.	FACTOR	CRITICAL (FREQUENCY)	%	IMPORTANT (FREQUENCY)	%	NOT IMPORTANT (FREQUENCY)	%
1	The family business should have a mission	78	97.50	1	1.25	1	1.25
2	Family & business vision should be correlating & unified.	77	96.25	2	2.50	1	1.25
3	Limited number of family member should work for the family business	70	87.50	8	10.00	2	2.50
4	Family member should have more authority & responsibility compared to non-family managers.	37	46.25	41	51.25	2	2.50
5	There should be performance appraisal accountability and reward system for the family managers.	36	45.00	32	40.00	12	15.00
6	Equal share of profits among members.	51	63.75	14	17.50	15	18.75
7	Freedom for the family members to choose a career of their option.	42	52.50	33	41.25	5	6.25
8	Family members not to have a separate business interest apart from the family business.	36	45.00	39	48.75	5	6.25
9	Eldest son should have the first preference of succession.	28	35.00	42	52.50	10	12.50
10	Owner should motivate offspring to join the family business by decision.	72	90.00	6	7.50	2	2.50
11	Applicability of family councils to resolve conflicts in family.	77	96.25	2	2.50	1	1.25
12	Family commitment to the business	78	97.50	2	2.50	0	0.00

13	Family firm should have long-term survival strategies.	74	92.50	4	5.00	2	2.50
14	Applicability of family constitution to the family business.	71	88.75	4	5.00	5	6.25
15	Family constitution should contain rules of profit distribution, and rules of entry & exit, and succession planning.	70	87.50	7	8.75	3	3.75
16	Family core values & tradition & culture for the family business.	74	92.50	5	6.25	1	1.25
17	Control of head of the family as core strength of the family.	30	37.50	46	57.50	4	5.00
18	Family experience in business is the core strength of family business.	27	33.75	41	51.25	12	15.00
19	Family unity is core strength of family.	76	95.00	3	3.75	1	1.25
20	Family relation & goodwill is core strength of family.	75	93.75	4	5.00	1	1.25
21	Financial strength of the family is a core strength of family business	31	38.75	44	55.00	5	6.25
22	External environmental analysis related to political, social, economy and technology for the family business.	77	96.25	2	2.50	1	1.25
23	Family needs should be considered while formulating the business plans.	76	95.00	2	2.50	2	2.50
24	Family participation in the strategic planning process of family business.	71	88.75	5	6.25	4	5.00
25	Family and business plans to be formulated at the same time.	73	91.25	6	7.50	1	1.25

Table 5-5. Model distribution of critical factor (Total = 17)

Question No.	Factor	Variation Ratio	Index of Diversity
1	Importance of business mission for a family firm.	0.03	0.05
2	Unified family and business vision.	0.04	0.07
3	Few family members should actively work for it.	0.13	0.22
5	Performance appraisal and accountability of family members.	0.55	0.62
10	Owner should discuss the family business with offspring to motivate them to join family business.	0.10	0.18
11	Family council to have power to resolve family conflicts.	0.04	0.07
12	Family commitment to the business.	0.03	0.05
13	Long-term strategic plans of market share/survival of family businesses.	0.08	0.14
14	Family constitution for the family businesses of Saudi Arabia.	0.11	0.21
15	Rules of business exit & entry, profit distribution & succession planning in family constitution.	0.13	0.23
16	Family core values, culture & tradition in the family business.	0.08	0.14
19	Family unity for core strength & family business.	0.05	0.10
20	Family reputation and goodwill.	0.06	0.12
22	Frequent environment scanning of political, economic, social & technology condition.	0.04	0.07
23	Priority for family needs in the strategic plans.	0.05	0.10
24	Family participation in the strategic planning process of family firm.	0.11	0.21
25	Simultaneous planning for the family continuity in business and the long term plans of business.	0.09	0.16

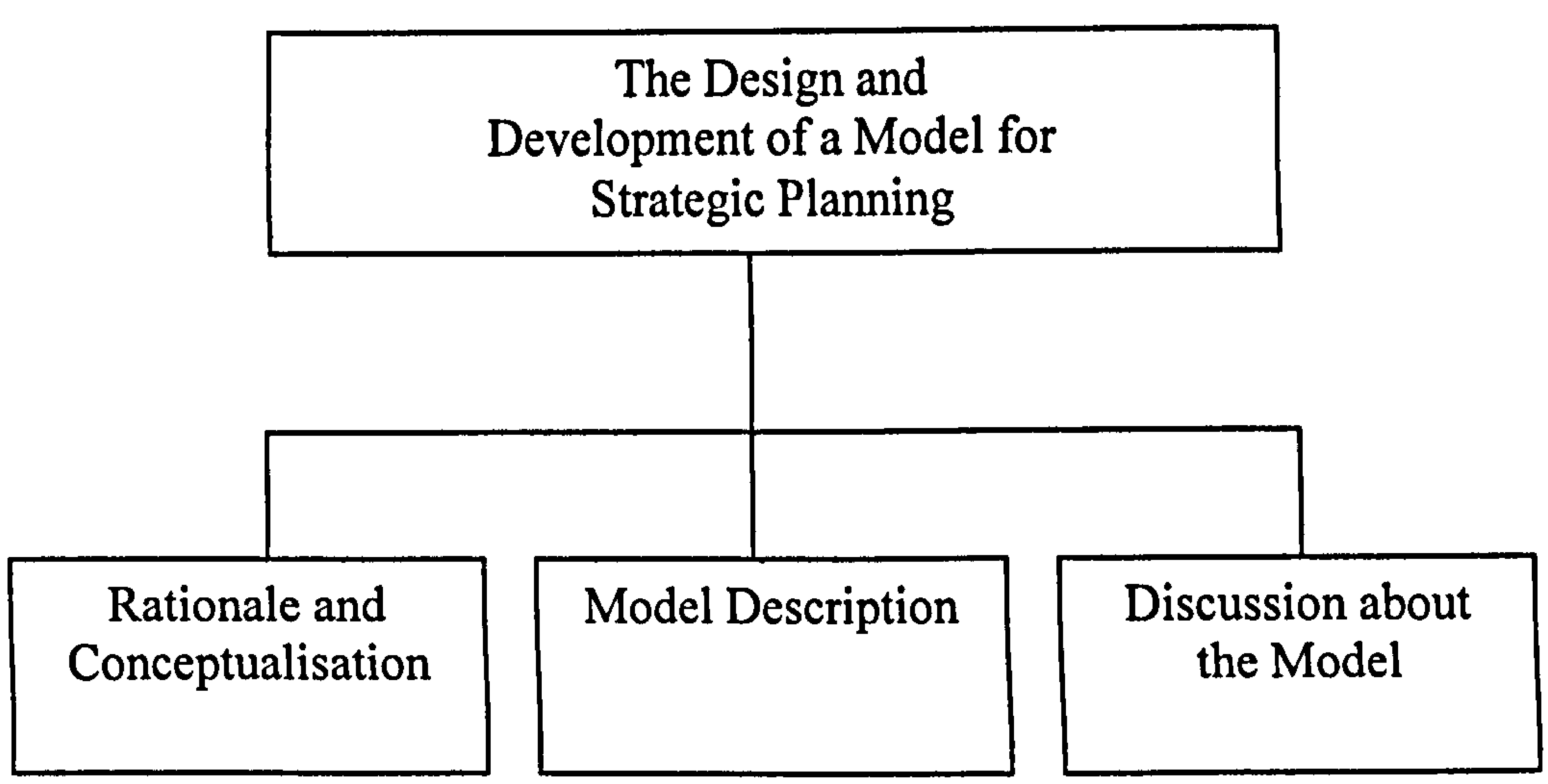
Table 5-6. Model distribution of Important factors (Total 8)

Question No.	Factor	Variation Ratio	Index of Diversity
4	Authority & responsibility of family member compared to non-family managers.	0.54	0.52
6	Equal share of profits among the family members.	0.36	0.53
7	Freedom for family members to choose a career of their option.	0.48	0.55
8	Family members to have separate business interest apart from family business.	0.55	0.56
9	Eldest son should always have first preference of succession.	0.65	0.59
17	Head of the family should have more control on the family business even after retirement.	0.63	0.53
18	Family members should gain experience outside family business.	0.66	0.60
21	Financial strength of a family is core strength of family business.	0.61	0.54

This analysis helped in identifying the critical and important factors perceived as vital for the family businesses of Saudi Arabia by the family business owners. This analysis indicated that most of the factors rated as critical for the functioning of family businesses are similar to the ones discussed in the literature review and identified in similar research findings of Western family businesses. One striking feature was response of family business owners in rating the factor of "Unified family business and family core values" as critical factors that affect a family business and its strategic planning process. In the next step of the research design, a model of strategic planning for the family business of Saudi Arabia was generated based on the critical factors screened out based on their Variation Ratio and Index of Diversity values. These were the factors, which were widely considered as critical by the respondents while formulating the strategic planning process in a family owned firm.

CHAPTER

6 A MODEL FOR STRATEGIC PLANNING FOR FAMILY BUSINESSES IN SAUDI ARABIA AND ASSOCIATED IMPLEMENTATION PLAN



This chapter presents a model for strategic planning for Family Businesses in Saudi Arabia, together with an implementation plan. The chapter starts by highlighting special characteristics of such businesses because of historical and cultural backgrounds. It then presents the proposed Strategic Planning Model clearly emphasising the importance of the inter-relationships existing between "Family" and "Business". The implementation plan for the proposed model is described in terms of 3 stages and associated steps. The chapter is finalised by a general discussion about the Model and implementation plan.

6.1 The consideration of special characteristics of Saudi family businesses

The majority of the family businesses in Saudi Arabia were trading establishments prior to the oil boom in the economy. They mainly were involved in the trading of foodstuffs, which they imported from Asian countries and sold in the local market. Pilgrimage season was the main business season for many of the family business establishments. Agriculture was minimal and economic activities mainly focused on trade. They provided services to the pilgrims during the annual HAJ (Pilgrimage season), during which people from all parts of the world visited the kingdom. The trades had a small market and conducted business from these market. Some of them provided the service of currency exchange, as there were no organised banks at that time. One such famous currency exchanger was the Al-Rajhi family, which now owns one of the largest banks in the Kingdom.

With the discovery and exploration of oil in the kingdom, the economy quickly grew and the business families had large amounts of money flowing in. Most of these traders shifted to the real estate business, as it was lucrative and highly profitable in the growing economy. The government developed the infrastructure and it was forefront in fulfilling the social responsibilities of health, sanitation and education. The real estate business fetched high profits to the traders as they diversified into new areas of business. Many of the multinational companies, which entered the market, selected some of these business houses as their agents and representatives in the kingdom, as the country had a law of minimal Foreign Direct Investment (FDI), and it encouraged the local business houses participation in the foreign company's investment in the country.

Most of the businesses established during this time were of first generation. The founder owners had minimal education and lacked the expertise to handle a growing business. They employed a large number of expatriate managers and technical staff, who operated the business and the owner founder monitored the business. They mainly acted as the Managing Directors, with the job profile of Public relations. The first generation founder owners were busy developing the business and diversifying in new areas of business operations. The businesses quickly started having a family identity. Most of the business conducted between the firms depended on the reputation of the family behind the business and the personal contacts of the owner founder in the society. This is in contrast to the business operations of family businesses in the western countries. In the kingdom, the business is strongly identified with the family, its reputation, and its culture and value systems.

The first generation founder owners motivated their children to join a growing business. Some of them made their children owners of different businesses of the group, operating in various parts of the kingdom. Most of the second-generation family business owners also had minimal educational background. However, some of the founder members of the business sent their children to western universities to gain the business management skills. The economy was growing until the 1990's. The business houses were quickly growing and the family participation became stronger as more members of the family joined the business. The gulf war in 1990 changed the business environment of the nation. Many of the expatriate managers left the kingdom and the kingdom for the first time had an external debt. Government spending and expenditure was slashed, the infrastructure and development projects slowed down in the kingdom and many business establishments faced mounting losses due to decreased spending by the consumer. This was also a transition phase as the third generation owners were being groomed for the business. Currently the economy of the nation is stabilizing mainly due to the higher oil prices in the global market. After the gulf war, the Saudi Arabian government realised there over dependence on the oil economy and wanted to diversify into other non-oil sector for stabilization of the economy and reduce the government dependence on the oil sector. The government also withdrew many of the subsidies offered to the private sector and encouraged FDI in the country. Foreigners were encouraged to invest and buy property in the country, which was not possible prior to the gulf war. The business environment is highly competitive in nature and the family businesses now face the situation of "Caught in the Middle". They had no organised strategic planning process in the business establishments. They were mainly concentrating on gathering the huge profits, the firms were making, further expansion of the business, diversify into new businesses and develop or groom the other family members to participate in the business. The current situation has forced many of the firms to identify a business mission and vision and develop long-term strategies of survival in the competitive environment of the market.

6.2 Rationale and conceptualisation of the proposed model

The models discussed in the literature have drawbacks mainly in the areas of family participation in the business, the recognition of the importance of family commitment for the business and the timing of strategic and family continuity plan. Some of the models are only descriptive in nature and deal with the factors that only affect the functioning of family owned businesses. They do not have any empirical testing correlation results to suggest their applicability to all the family businesses. Moreover, the guiding force of a family business is the core family values, unity and its culture. Hence, the models described cannot have a universal application in all forms of family owned businesses all over the world. The culture of families, value systems and individual member behaviours in the family are different from nation to nation. The family business also operates in a varied external environment forces all over the world. The trend of globalisations and cross border strategic alliances, with the advantage of technology has become norm of the day. The family businesses have been adapting to the change and have undergone a radical shift in their structure, operations and investment approach. In such a scenario, none of the models described can considered as the single best form of strategic planning approach in the family owned businesses.

The models described the literature could not fit the family businesses of Saudi Arabia and did not fit many of the unique features of operating in the Kingdom. The main reason being the different customs, culture and business environment compared to the western countries family owned businesses. The cultural forces and the family value systems have a strong influence on the business operations of the family owned businesses in the kingdom.

6.3 A description of the structure of the proposed model

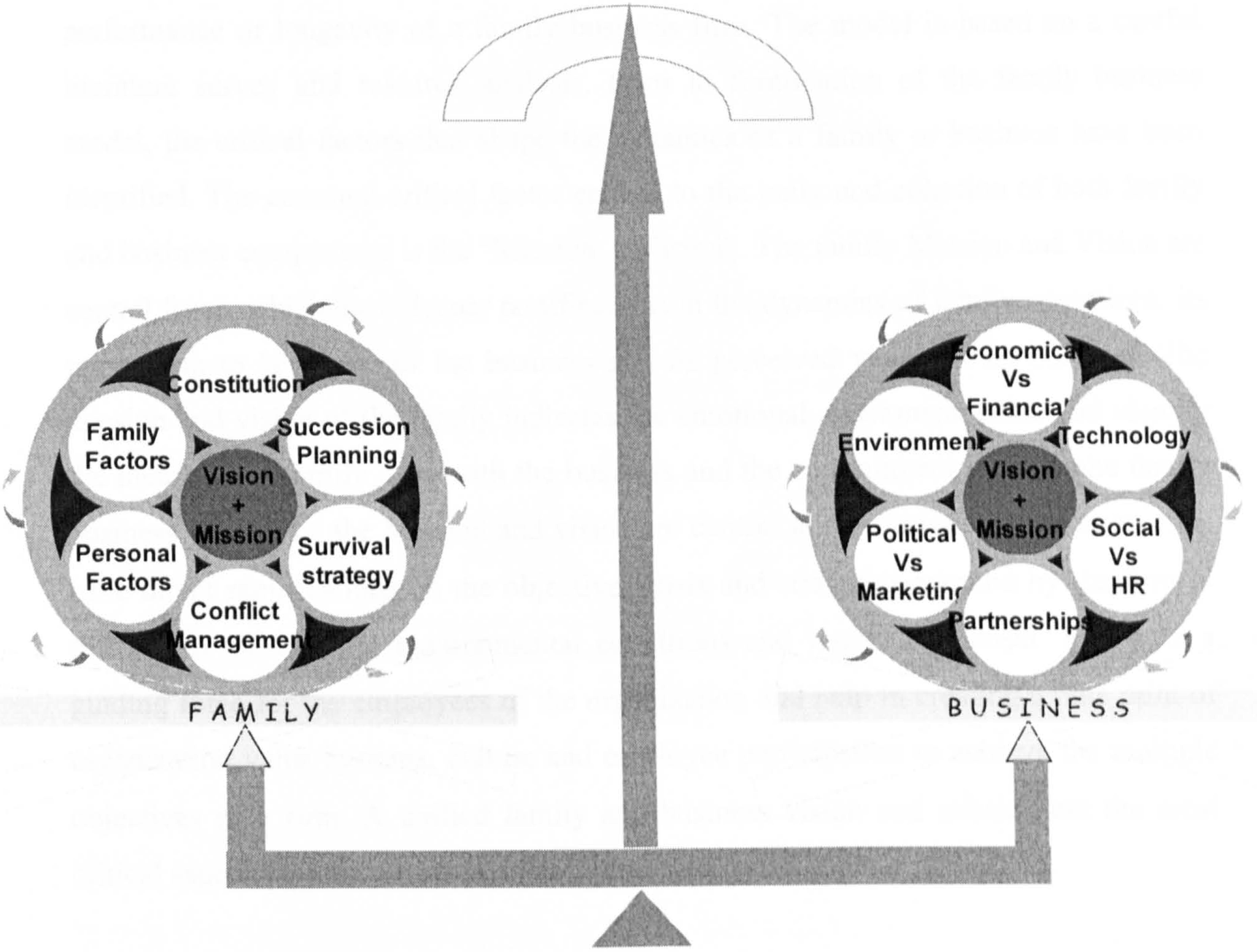
Based on the literature review of the models suggested for the strategic planning process of a family owned businesses and the data analysis of the questionnaires in Stage 1 and stage 2 of the research, the salient features of the family business operations and planning methods adopted in such firms could be identified. Stage 2 research helped further in identifying those factors considered as vital for the strategic planning process and operations management of a family owned business in Saudi Arabia. These findings formed the basis for the model that we suggest for the strategic planning process of a family owned business.

The parallel planning proposed by **Randel, Carlock and Ward [1998]** was taken as the basis for the model proposed by us. We identified the major drawbacks of every model, which we have earlier described in the literature in the previous chapter. We adopted the basic framework or the philosophy of parallel planning suggested by Ward. We identified the drawbacks of these model, customised this model to fit the strategic planning needs of the family businesses in Saudi Arabia by incorporating those factors considered critical for the strategic planning process in a family owned businesses identified in the Stage 2 of the research work (See Table 5.5 and 5.6). These put together formed the basis of our proposed model for the strategic planning for the family businesses of Saudi Arabia.

6.3.1 An overview of the proposed model for Family Business Strategic Planning

An overview of the proposed Family Business Strategic Planning is shown in Figure 6.1.

Figure 6-1. Overview of the Family Business Strategic Planning Model



6.3.2 Family Business Strategic Planning model

The proposed family business is based on the literature survey and the research results of the study, discussed in the earlier chapter. The model is based on the principle of balancing the family objectives and business objectives. Striking a balance between the dynamics of a family participation in the business and the principle business objective of higher return to the shareholders and increased market share in competitive environment is very critical for successful growth and continuity of a family business firm. The imbalance created due to over emphasis on family interest or over emphasis on business interest alone can create a rift between the family and business components, which will eventually result in compromised efficiency of a family business firm.

The model is based on this primary research finding that critical point of striking a balance between the family interest and business interest is most critical in the performance or longevity of a family business firm. The model is based on a careful literature survey and research analysis. Prior to formulation of the family business model, the critical factors that shape the dynamics of a family or business have been identified. The common critical factor central to the unity and cohesion of both family and business components is the "Mission & Vision". The family Mission and Vision are central force, which have deeper ramifications in the dynamics of family operations, its motivation to be a part of the business and its perceived vision of its business. The mission and vision of the family indicates the emotional attachment, pride and identity the members of family have with the business and the commitment towards the family business. Similarly, the Mission and vision are central in the business component; they have direct ramifications on the objective, goals and strategies adopted by the firm in relation to the external environmental conditions and internal appraisal. It acts as a guiding force for the employees of the organization and help in creating a blue print of organization value systems, culture and employee participation to achieve the multiple objectives of a firm. A unified family and business vision and mission are the most critical aspect for the success of a family business firm.

6.4 Family factors in the model

The model identifies the critical factors in the dynamics of a family, which have a strong influence on its commitment towards the business and its continuity in business. These are shown in Figure 6.2. A few of these factors have a dual influence, which is reflected internally in the dynamics of a family and also externally, which reflects the family philosophy to the people related externally with the family in business.

Figure 6-2. Family Factors in the model

The family constitution plays a crucial role in laying down the ground rules of family members interpersonal relationships, the commitment and behaviour desired from them and the rights and obligations of each family member in the business. Internally it has a direct impact on the individual family member behaviour towards the business, his personal plans in light of the family constitution and influences his perceptions and expectations from the family business. Though the family constitution is not a public document, which is open for non-family member scrutiny, it does serve as a benchmark to identify the family capability in handling its internal issues, as well as its commitment towards the business collectively. The literature survey and the research have proved that families, which have a constitution, are perceived by non-family managers as more stable in their continuity with the business.

Succession planning is one of the major components in the family dynamics, which is a highly complex and sensitive issue. Even the most well organized succession planning methods have met with some amount of discontent and criticism by the family members. It is also a factor, which has a dangerous impact on the unity of the family, if neglected and indecision by the founder member. Hence, this factor is very vital in the family planning, which is aimed towards developing a unified strategic plan for a family business firm. This factor has its impact both internal and external to the family. Internally the succession planning creates the leadership planning of family towards the business; while externally, it helps the entities dealing in business with the family in identifying the command structure and ownership pattern of the family involved in the business.

Conflict management is also a critical dimension in the family philosophy orientation towards the business. The various forms of conflict discussed earlier in the literature review are between father and son, among the siblings and among cousin consortiums. Conflict management has both explicit and implicit effects on the business. Internally to a family the conflicts can lead to poor interpersonal relationships among the family members and can lead to poor family commitment towards the business or coordination among the members working in the family. Externally the conflict in a family affects the reputation of the family in the market, the brand image and the value of the stock (if a public limited company). Externally the conflict management in a family can affect the confidence of employees of the firm, the power centres generation in the firm and the confidence of the investors in the efficiency of the company.

The survival strategy of a family is its collective efforts towards continuity of its presence in a given line of business, the collective response of the family for the growth and development of the family business in light of fluid external competitive environment and a unified effort of the family to hold its power and control in the organization. The survival strategy adopted by the family firm has its implications internally to the family and externally to the entities connected with the family business in any form of business relationship. Internally the survival strategy indicates the collective approach of the family towards the business continuity and a collective approach towards growth and development of the family business. It indicates the sense of pride the family members share for the business and the unity of command and decision making among the family members. Externally the survival strategy of the family adopted indicates its commitment and emotional attachment towards the business. The survival strategy adopted indicates the level of family participation in the business. It acts as a gauge for the external family members or the managers, as the seriousness of family involvement in the business.

The personal factors are the individual perceptions and attitudes of the owner or the member of family, who is in charge of running or heading the family business. These personal factors have both external and internal implications to the family business. Internally the personal factors of the family representative running the business will affect the interpersonal relations of him with the other family stakeholders in business. The personal factors include the individual and isolated perceptions, expectations from the business and planning for self-oriented growth of the family member in charge of heading the business. Externally the personal factors reflect the persona of the family member; his attitude and behaviour represent the family commitment and involvement in the business. The personal factors externally indicate the role played by the family representative in integrating the family vision with the business vision.

Family factors are collective factors of family cohesion, unity, integrity and dynamic of interpersonal relationships between the members of the family, who are actively and passively involved in the business. These factors have mainly an internal impact on the dynamics of a family, and have a weak influence externally on the family.

6.5 Business factors in the model

Similar to the critical factors in family mentioned above, which are critical to the dynamics and participation of family in the business, there are business factors, which are critical to the success of a family business. These are shown in Figure 6.3.

Figure 6-3. Business factors in the model

These critical factors have impact both externally and internally in the functioning of business. These factors are described below.

The economic and financial factors indicate the performance of a business firm externally and can act as an internal strength or weakness during a SWOT analysis. The economic factors include the markets in which the family business is operating, the economic environment of the market, the propensity to pay of the customers and other major national economic indicators. The financial factors include the performance ratios of the firm, the capital budgeting employed, the dividends policy, Cost volume profit analysis and leveraging of various financial resources to gain higher returns for the shareholders. Internally these factors can act as a strength or weakness for the firm and motivate the employees towards higher performance and increased family participation is motivated. Externally these factors indicate the health of the organization and can attract higher business opportunities and long term strategic partnering relations with the suppliers.

The technology use in the business organization helps in streamlining of its business operations and help in quality service delivery to the customers and suppliers of the firm. The use of technology in the family business firm has both internal and external implications. Internally it helps in process designing, which helps in cross-functional coordination, coordination of resources utilization or mobilization and maintaining higher standards of quality at every stage of product or service production. It also helps in the market research of the firm, which is a vital process for an organizational success. A technologically mature firm has a more competitive advantage over other firms in the industry.

Externally the technology usage helps in better product or service delivery to the customer and suppliers. It helps in integrating the operations of the firm with the supplier in the supply side such as B2B commerce and coordination with the customer on the sale side such as B2C commerce. The external influence of technology is the customer perceptions of the organization. Those organizations, which have a higher level of technology usage, are perceived by the customers as better adapted to meet the customer needs efficiently.

The social factors and human resource factors have a major influence on the performance of a business. Both these factors have internal and external influence. The social factors include the demographics of consumers, the values, traditions and cultures of the country and it has internal implications on the attitudes of employees working in the organization. The human resource abilities and skills have a direct bearing on the productivity and efficiency of the firm's performance. These factors externally reflect the professionalism of the firm in meeting the needs of their customers.

The strategic partnering of the family business firm with the suppliers and cooperation with competitors and other firms plays a major role in the success of firm. The changing dynamics of Middle East markets and the influx of multinational firms in the kingdom, make the small and medium sized family business firms, to either join them or loose the market to them. In such a scenario, the strategic partnering with other firms makes a large impact on the profitability and longevity of the family business firms in the kingdom. The strategic partnering will also indicate the strength and capabilities of the firm in competing effectively with other strong players in the market. Thus, strategic partnering is a crucial factor in the business aspect of a family business firm in the kingdom.

The political scenario and the marketing strategies adopted by the firm has a great impact on the external brand image of the company and internally create a sense of pride and motivation among the employees to be a part of a know brand name in the market. The political scenario includes the legal and political environment of the nation and the capabilities of political lobbying among the family businesses. In Saudi Arabia majority of the big family business have a strong political connections with the royal family. The marketing strategy includes the marketing mix adopted, the advertising mix adopted and the approaches adopted by the firms in product or service delivery to the customer and the methods of identifying the customer needs analysis.

The environmental factors are major factors now in many of the firms, where they need to focus on the environment protection during the product manufacturing or service delivery. Many of the nations now have strict policies that regulate the environment protection policies adopted by the family business firms. In Saudi Arabia the environment protect rules and policies of the state are very stringent and a close monitoring is done on the firms, which violate the environmental safety norms.

As discussed earlier the model is based on the principle of striking a balance between the critical factors which shape the internal dynamic of a family and business, and which have a strong external influence too. The model figure indicates this aspect of striking a balance between the family interest and business interest.

If any changes occur in any of the critical factor of both a family and business, it has its impact both internally and externally. If the turmoil occurs in the critical factors of family, then the shift will be more in the opposite direction and it effects the balance of business and similarly any changes in the business critical factors has a negative shift towards the family and the balance is out of gear, which can affect the business and family both. Thus, a balanced approach of giving equal importance the family factors and business factors is very critical in a family owned business.

6.6 The implementation plan for the proposed Family Business Strategic Planning Model

The implementation of the proposed model is conveniently divided into 3 Stages. These are:

1. Assessing to what extent the Firm is Family or Business oriented
2. Developing a shared philosophy
3. Developing a Business Planning

Each stage given above is described further in the sections below.

6.6.1 Stage 1: Assessing to what extent the Firm is "Family" or "Business" - oriented

The first stage in the strategic planning process of a family owned business is to identify to what extent the Firm is family or business oriented. To this extent, the outlook of the family involved in the business may have three forms of involvement with the business as follows:

1. In the first one, the firm gives more importance to business compared to family needs. Business comes first and then the family. Such family considers business as the main or core theme of family existence. They give business growth, business needs and business development precedence over the family needs, family members individual development needs. The family participation in business is minimal or strictly by merit. The eligible and competent members of the family are allowed to work actively in the business. The non-family members have more authority and responsibility over the family members working in the business. Such a relationship of family and business entity would stifle the growth of the business in the long term. As the family is the guiding star for the business, over emphasis on the business would leave many a family members unsatisfied and can eventually lead to split or disintegration of the family. Minimal participation of family members in the business would lessen the interest of the family members in the business and would

eventually result in decreased level of emotional attachment of the family members towards the business and hence business might suffer development due to the lack of family members interested in the business.

2. In the second one, the form of family involvement with the business entity will be with the family having precedence over the business needs. In such family business organisations, the family needs are given more importance over the business needs. The family business owners perceive the business as existing to fulfil the individual and collective family needs. The members perceive the business as a source of income and easy employment option. The business owners always keep the family needs in focus while formulating the business development plans. The main objective of the business operations is to fulfil the family needs. This form of family involvement would also prove disastrous for the family owned firms. The non-family managers will have little freedom to function, the family may have demands, which are difficult to fulfil due to the limitations of the business, incompetent members of the family would be making critical business decisions and the conflicts of the family members would affect the business very dangerously.
3. In the third one, there is a balance of family and business needs. The family members have a strong bond of attachment with the business. They consider the business as their identity. They have a collective vision for the family and the business. This form of family business relationship, gives equal importance to both the family and business needs. The family members are encouraged to join the business and the business is considered as pride of the family. They have well laid down rules of family members entry and exit in the family business. They have regular family council to decide the future course of family participation in the business, the continuity of business and other major issues of the business. The succession planning and the retirement planning are well conceived and implemented in orderly fashion. This is an ideal relationship of a family and a business organisation. The strategic planning process proposed in our model begins with identifying the current relationship type between the family and the business.

If the family business is a "Business first" oriented, the first step in the strategic planning process for such an organisation is to develop a "Family Business Philosophy" and a family vision. If the family business is "Family oriented" then the first step in the strategic planning process is to develop the "Business Mission and Vision". Both the steps are described in detail in the model diagram and in the following steps.

6.6.2 Stage 2: Developing a shared family business philosophy

If the family business is more business oriented and gives precedence for the business over family, then the organization needs a family business philosophy. The objective of this exercise is to educate the family members about the importance of family member's participation in the business. The family participation is very crucial in the long-term survival of the family business as it provides a sense of direction and vision for the family business. It is the driving force behind a successful family business. The neglecting of family participation in the business can prove detrimental for the family owned business in the long term.

Figure 6-4. Family Philosophy Formulation

IDENTIFY FAMILY VALUES & TRADITIONS

IDENTIFY THE FAMILY BUSINESS STRUCTURE

--Single Owned
--Father & Son Partnership
--Brothers or Sibling Partnership
--Cousin Consortium
--Family with outside investor

IDENTIFY THE LEVEL AND SCOPE OF FAMILY PARTICIPATION

--Passive owner
--Employee
--Facilitator for decision making by other non-family managers
--Strategic decision maker

PROCEED TO DEVELOP THE FAMILY VISION

In developing the family business philosophy, the family values and traditions are identified, which are the core strength of the family and which bind the family members together and help in developing a family vision. The next step is to identify the type of family business structure the firm wants to adopt. It could be a single owner, father and son partnership, Partnership of brothers, and Cousin consortium. Identifying the structure of the family business will help in judging the relationships and interaction between the family members involved in the family business. The personal behaviour of the family members, the type of communication, factors that can lead to conflicts and collective perception of their responsibilities towards the business are different in different forms of family business structure. These factors are different when the firm has a single owner or a father and son partnership, or partnership betweens brothers and cousin consortium. Once the type of family business structure is decided, the next step is to identify the level of family participation in the business. The family could participate as passive owners, employees, only as a facilitator for decision making by non-family managers and the family member participating the in the business could be a strategic decision maker for the family business. The degree of level of family participation in the business also helps in identifying the family commitment towards the business. This would help in developing a family vision. It was noticed during the research that those families that have a high degree of participation in the business, tend to have a unified family vision for the business and have a strong commitment for the business. The degree of participation suggested in the model is not by the number of family members participating in the business, but by the level of authority to make business policy decisions and participation in the functioning of the business. The literature review suggests that pruning of the family participation in the business and keeping the number of family members working in the business as low would help in easy management of the business. Our research findings also support this theory. The data from the stage 2 of research indicates that the family business owner's consider minimal family members to actively participate in the business as critical factor in the successful functioning of a family owned business. More than 87.5% of the respondents rated this factor as critical for the functioning of a family owned business. This factor was found to have a variation ratio of 0.13 and Index of Diversity value of 0.11, indicating a wide spread of agreement among the sample of research as critical for the family owned business.

In the proposed model, it is suggested that by identifying the type of family-business entity relationship, if it is found that the family business is more business oriented, then the first step in the strategic planning exercise is to develop a family business philosophy. This would help in identifying the family members' commitment for the family and help in recognizing the importance of family participation and commitment for the business. Once the level of family commitment for the business is identified, it helps in developing the family vision for the business. The outcome of the exercise of developing the family business philosophy described above would result in clearing the vision of the family for the business. A family having strong commitment towards the business and one, which would actively participate in the functioning of the business, would have a long-term vision of development for the business. The vision of the family for the business is very crucial as it forms the basis for the business vision and business development. It also acts as a motivating factor for the family members. The research data from stage 2 of research also reflects the importance of a unified vision of family and business. More than 96% of the respondents rated this factor as critical for the strategic planning and functioning of a family owned business. The family business philosophy helps in developing an emotional attachment of the family members towards the business.

A parallel exercise that would be conducted along with the family business philosophy development would be to draft the Business Mission.

6.6.3 Stage 3: Business planning

To achieve this, a number of steps are recommended and include the following:
1. Formulating a Business Vision and Mission
2. Devising a Management Philosophy
3. Creating a Family Vision
4. Developing a Family Business Plan
5. Reviewing External Environmental Analysis
6. Reviewing Internal Environmental Analysis

6.6.3.1 Formulating business mission and vision

The main difference of drafting the business mission in a family owned business, compared to other forms of non-family organization is the inclusion of family expectations and goals for the business. A family, which has a strong commitment for the business has many expectations and goals for the family. The business mission is formulated by identifying the product lines handled by the business, the scope of market operations and the expectations of the family for the business. The mission statement helps in the corporate identity. It helps the employees of the firm in identifying the basic purpose of corporate existence and acts as guidance in their functional operations. The business vision helps in setting the corporate objectives and the goals. A business mission and vision statement is very important and critical step in the strategic planning process of a family business. The data from Stage 2 research indicates that more than 98.5% of the respondents rate the business mission and vision statement as critical for the family business operations and in the strategic planning process of such firms. The formulation of the business vision and mission is shown in Figure 6.5.

Figure 6-5. Formulation of the Business Vision and Mission

BUSINESS MISSION

IDENTIFY THE PRODUCT LINE HANDLED BY THE FAMILY BUSINESS

IDENTIFY THE MARKET SCOPE OF OPERATION

IDENTIFY THE FAMILY EXPECTATION AND GOALS FOR THE FAMILY BUSINESS

DEFINE THE BUSINESS MISSION OF THE FAMILY BUSINESS

6.6.3.2 Developing a management philosophy

The management philosophy includes the formulation of organization wide rules, systems and procedures. It helps in streamlining of operations in a firm. It includes drafting of organizational policy of quality, corporate culture policy and articles of association as shown in Figure 6.6.

Figure 6-6. Development of a Management Philosophy

DRAFT MANAGEMENT PHILOSOPHY OF OPERATION

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DRAFT QUALITY POLICY

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ARTICLES OF ASSOCIATION

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CORPORATE CULTURE POLICY

6.6.3.3 <u>Creating a family vision</u>

A family vision provides the family support for the business and helps in its development plans. Most often, it is the inherent family culture and value systems that form the basis for the family vision for the business. The model suggest that while formulating the family vision for the business a collective vision of the family is very vital for the business. This can be achieved through the family council. The family council can be attended by all the family members who are directly or actively involved in the business, the second line of owners or the successors and the spouses of the family members who have a share and interest in the family business. The inclusion of non-active participants of the family in the business should also be encouraged in the family council. The owners or the active members of the family business should discuss the family vision for the business. The interaction among the family members and views expressed by the family members will help in formulation of the collective vision of the family for the business. Care should be taken to formulate a realistic vision keeping in view the limitations of the family, external market and business operations of the firm. An overemphasised and unrealistic vision can lead to increased expectations of the family members from the business and can create a negative perception among the family members as a failing business and non-performing management.

A family vision should be drafted in the family council. This will also help the other members of the family realise the current status of the family business and the expected direction of growth towards which the family collectively is steering the business. The process of formulating the family vision for the business is carried out as a parallel process along with the business mission & vision statement formulation. As shown in figure 6-7

Figure 6-7. Creation of a Family Vision

IDENTIFY THE FAMILY CULTURE AND TRADITIONS

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IDENTIFY THE CORE VALUES OF THE FAMILY

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ASSESS THE EMOTIONAL ATTACHMENT OF FAMILY MEMBERS WITH THE BUSINESS. THEIR PRECEPTIONS AND EXPECTATIONS FROM THE BUSINESS

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DISCUSS THESE FACATORS IN FAMILY COUNCIL OR MEETING

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DRAFT A FAMILY VISION

6.6.3.4 Developing a family business plan

As shown in figure 6-8 the most critical part prior to the actual strategic planning process is to achieve a unified and common family-business vision. The vision of the family for the business and the vision of the business should be strongly integrated. This unified vision forms the foundation of the strategic planning process in a family owned business. A unified vision can be achieved if the family vision for the business is formulated realistically, keeping in view the limitations of the business in light of the external market environment constrains and the family financial strength. This family vision for the business should be a collective family vision. Simultaneously a business vision should be formulated, keeping in view the family expectations from the business and family needs that are to be fulfilled by the business. 96.2% of the respondents in stage 2 of research rated the importance of unified family and business vision as critical for the functioning and strategic planning process of a family owned business. A unified vision of the family and business would make the process of strategy formulation easier. A better strategy for the family business that would fulfil the business development need and the family needs can be formulated.

A shared family-business vision would lead to the process of Family business plan described in the following paragraphs.

Figure 6-8. Proposed Family Business Plan

FAMILY BUSINESS CONTINUITY & SHARED BUSINESS VISION PLAN

IDENTIFY THE ACTIVE AND NON-ACTIVE PARTICIPANTS OF THE FAMILY IN BUSINESS. THEIR RIGHTS AND ROLE IN THE BUSINESS FAMILY OBJECTIVES AND GOALS

DRAFT PROFIT SHARING METHOD AMONG FAMILY MEMBERS

DRAFT AND DESIGN FAMILY CONSTITUTION AND FAMILY COUNCIL

FAMILY CONSTITUTION

- Rules of business entry and exit
- Responsibility areas of each family member, both active and non-active
- Representation on the board
- Rules regarding individual members independent business interest
- Conflict management
- Succession planning and rules
- Retirement plans and rules

FAMILY COUNCIL

- Place & frequency of meetings
- Persons who can attend
- Chairperson who will provide
- Scope of topics that can be discussed in the council
- Scope of resolution that can be passed by council
- Voting rights of members

DRAFT OF FAMILY-BUSINESS AGREEMENT

A family business plan deals with the actual interfamily dynamics and helps in designing a family-business agreement that defines the scope and role of family participation in the business, its rights and obligations towards the business. This plan helps in formulation of business strategies with family participation in the process.

The basis or the precursor of the family business plan is the unified vision of the family and business. The next step is to identify the number of family members participating in the business, as active members and the non-active members. Their level of participation in terms of the position they hold in the business, their rights and obligations in the business have to be defined.

The other critical factor of the family plan includes the draft of profit sharing among the family business. The members should collectively decide and agree upon the method of profit distribution among the family members, the remuneration to be paid to the active members working in the family business apart from their share in the profits, the share of sons and daughters and the distribution of business shares among the family members. Most often, it is the founder member who decides the distribution of shares and profits among the family members. However, if the business is a partnership between the brothers and cousins, a written draft of profit and shares distribution is very important.

As part of the family business plan, a family constitution has to be drafted and formulation of a family council with membership of various family members should be designed. The family constitution should cover all major factors such as:

- Responsibilities and obligations of both active and non-active members of the family in the family business.
- Rules of business entry and exit of the family members. Most of the family businesses formulate rules of business entry, in which the members should have a few minimum qualification, education and training before entering the family business as an active member. Similarly, the rules of exit include legal bindings on the family members to sell the shares in the family business either to a particular member of the family, or divided equally among the family members at the time of exiting the family business.

- Representation of the family members on the board. A rotation basis to nominate every member of the family on the board is suggested. By a fixed period of time every member of the family gets nominated on the board of directors of the family business.

It should contain the rules regarding individual family members having their own business investments apart from the family business. Most of the family business owners disagree that the individual members should an individual business interest in other firms apart from the family business. They feel it would lead to conflict of interest and lessen the family members' commitment towards the family owned business. Some even suggest that if the family members' individual business does not conflict with the business interest of the family business, it can be permitted.

Rules regarding conflict management have to be addressed in the family constitution. Rules such as who should resolve the conflict, means of appeal and the freedom of members to express their conflicts to the concerned member designated to resolve conflict. Some family businesses also define the scope of legal petitions a family member can file against a family member in case of a conflict. The rules of conflict management are very vital in the family constitution. An unresolved conflict among the members of the family can lead to quick destabilization of the family business. Members should be encouraged to express the conflict explicitly to the designated member of the family, who is authorised to resolve the conflict, by listening to both the parties.

Rules of succession planning and retirement benefit plans have to be formulated in the family constitution. In Saudi Arabian family businesses, it is most often the eldest son succeeding the founder owner. At the same time, there are no retirement benefit plans of the founder owner. Most often, the founder owner does not retire even after the second generation takes over the family business. A retirement benefit plan should be formulated, which is safe for the founder owner and at the same time it gives the succeeding generation family members in command a sense of control over the business operations. Rules such as the retirement age of the founder member or the senior member of the family in control of the business would help in leadership development in the family owned firms.

Along with the formulation of the family constitution, a family council should be created. This would act as the forum where the family members interact and exchange views about the functioning of business, a body which increases the interaction among the family members, gather suggestions, formulate plans of the family for the business, resolve conflicts and critically analyse the functioning of the active members in the business. It is a form of democratic management of family owned businesses. Family councils could also amend and append the family constitution. While formulating the family constitution, it has to be decided, by the active participants in such councils, who are invited as members, as observers and as moderators. The council will also decide the voting rights of the members. Usually the senior member of the family is elected as the chairperson of the family council.

Family council rules or the scope should be defined, as to what matters of the family business can be discussed in it and the scope of resolutions it can pass. The frequency of the family council meetings should also be decided.

The formulation of family constitution, the family councils and draft of profit sharing together form the family plan for the business. This with the scope of family participation in the business will form the family business plan or agreement. All the above-mentioned factors should be documented and attested by the family members. This draft agreement will lead to the actual strategic planning process of the family owned business. The draft family business plan or agreement is an important document, which can be equated with the Memorandum of Understanding (MOU) between the family entity and the business entity. This leads to a clear vision for the policy formulation of the business.

6.6.3.5 Carrying out an external environmental analysis

The rest of the strategic planning process of performing external environment analysis and internal appraisal of the firm is similar in both family and non-family businesses. In the external environmental analysis both the immediate and distant environment are analysed. The immediate environment includes the specific industry in which the firm operates and the distant environment includes the general environment, which affects all the firms in general. The various factors that are closely monitored and in a holistic view in the external environment include:

1. Political environment and stability of government in the region, where the firm operates.
2. The economic growth and major economic performance indicators.
3. Social customs, traditions and value systems of the local market.
4. Technological trends that affect the communication and operations of a firm.
5. Government regulations of the environment protection etc.

In the industry specific environment, the firms should constantly monitor factors such as:

- Bargaining power of customer
- Bargaining power of suppliers, their technology to integrate forward or backward in their production line.
- Rate of new entrants in the industry, the barriers to entry etc.
- Customer profile of the industry.
- Industry growth trends.
- Competitor analysis

The competitor needs to be analysed in terms of its market share, financial and other technical competence, manpower, connections and reputation in the market, budgets, its growth rate, its leadership, the competitor assumptions about himself and about the other firms with which it competes etc.

The external environmental analysis will help in identification of the opportunities and threats that a family business can face and exploit. At the same time, a forecast analysis based on the economic and growth trends of the industry can help the firm in identifying the future opportunities and threats.

6.6.3.6 Carrying out an internal environmental analysis

An internal analysis of the family firm can help it in meeting the challenges in the external environment and at the same time gear it to exploit the opportunities. The internal appraisal of the family owned firm is similar to other firms, except that the core strengths of family and weaknesses are also analysed during the process.

The internal analysis of the firm includes the strengths or core specialties it has in its functional areas such as:

- Marketing team and its capabilities.
- Financial strength, investors' confidence, EPS and financial institutions backing to the firms development projects and working capital requirements.
- Human resource in terms of their motivation, training and cross culture representation in the firm.
- The technology in its use, its life cycle and cost of upgrading etc.
- Operations and logistic support.
- Pre and post sale customer service support etc.

Apart from the functional appraisal, the family appraisal has to be conducted to identify the business strengths and weaknesses. They include:

- Core values and traditions of the family.
- Unity in the family members and unity of command and representation in the family business.
- Leadership of the family.
- Relationship among the family members, both active and non-active members of the family business.
- Emotional attachment of the family members and deep-rooted trust in the family business.
- Family reputation and good will in the market.
- Financial capabilities of the family in business to fund further development projects or attract new investments from outside investors or the financial institutions.

The analysis of firm and the family will lead to developing of a matrix of family business strengths and weaknesses. Together with this matrix and the external environmental analysis matrix, a SWOT analysis is conducted, to identify the current potential of the family business in light of the opportunities and threats of the external environment. Matching strengths and weaknesses with opportunities and threats requires that a firm should direct its strength towards exploiting opportunities and blocking threats while minimizing exposure to its weakness at the same time. Thus, strategies, which are aimed at matching strengths and opportunities, can be called exploitative or developmental strategy. Those which direct strengths are used to repair weaknesses; they may be called remedial strategies. SWOT analysis provides the basis or a comprehensive approach to strategy.

Ward [1987] has broadly proposed twenty-two alternatives in strategies that could be adopted by the family firm based on the industry's attractiveness and the internal capabilities of the family firm. These twenty-two alternatives are evolved from six categories that are also called as the grand strategies as discussed in Section 3.

6.7 The implementation plan

The essential activities to be considered in the implementation plan include:

- Stage 1: Preparation
- Stage 2: Philosophy
- Stage 3: Business Planning

After analysing the literature, the results of our research studies the following recommendations are suggested for the strategic planning process in family businesses:

- Business family should be involved in the planning process.
- The strategic planning process in a family owned business should be based on the unified vision of the family and business.
- A pre assessment of the family business is required to identify, the family business integration dimension. The family businesses could be a "family"

focused or "Business focused". The ideal win-win situation for the family and business entities would be if the family and business needs are balanced and one does not grow at the cost of other.

- There should be a clear demarcation between goals that the family harbours for itself and those that the family holds for the family business.
- **Post [1993]** suggests that for family firm to remain successful, they must generate a new strategy for every generation that joins the business. This provides autonomy for the newly joining family members thereby aiding maintenance of good work relationship.
- There should be an effective environmental analysis system in the family firms, which concentrates on various macro environmental factors that can affect the future of the firm.
- Family firms should constantly assess the competitive environment for strategic moves of the competitors and changes in the industry.
- There should be systematised succession planning procedure that would provide continuity of leadership to the family firm that can become its competitive advantage.
- There should be complete harmony and goal congruence of family members that helps in forming a unified family plan that is the basis for the strategic business plan.
- All family members should have commitment to the business.
- Non-family managers of key functional areas should be involved in the strategic planning process.
- Environmental analysis and internal resource audit of the firm should be carried out more frequently in a dynamic environment.
- Family firms should keep a close watch on the strategic group formation and cartel formation in its industry.
- Family firms should formulate contingency plans apart from the strategic plans to face sudden eventualities.
- Close-knit family firms should take the help of outside professionals while formulating the strategic plan.

- There should be proper strategy evaluation system in the family firms to analyse the performance of selected strategy against the selected goals.
- Successor should be trained and involved in the strategic planning process.
- Family members should constitute the management development team, which formulates the management development plan.
- In family business, the family and the business are so entangled that emotions are unavoidable. Consequently family firms are often advised to appoint outside board members. Family firms that are not large enough to attract outside board members, family councils **[Lansberg 1988, and Ward 1987]**, review councils or advising councils are recommended.
- Family firms should adopt one of the generic competitive strategies proposed by Porter. They are cost leadership, differentiation or focus. Family firms that do not adapt any of these generic strategies will be "Stuck in the middle" type and make below average profits in the industry.
- The family firms should formulate a mission statement that would integrate and motivate the family to participate in achieving the business objectives.
- Regular family councils and meetings should be conducted to incorporate the family needs in the family plan.
- The family should be involved in identifying the critical success factors or the core competence of the firm.
- The family should sacrifice certain critical resources as money that can be deployed in the critical success factors for business development and growth.
- Families owning multiple firms should carry out portfolio analysis to identify the businesses of growth and those that could be divested to employ the freed funds in other growth sectors.
- Family values should be kept in mind while formulating strategy. As these values bind the family and business together.
- Suitable structure and systems should be developed in the firm that would support the selected strategy.
- Most of the times the family goals and business goals are not compatible. As a consequence family firms are confronted with implications and trade offs that

might not be readily apparent. Studies that identify these trade-offs and inform family business managers about their implications can make a great contribution.

- What is good for the family may not be good for the business. Instead there are usually trade offs between the needs of the business and needs of the family. A better understanding of this will help in decision making during strategy formulation.
- Optimum resource allocation in the key functional areas identified by value chain analysis is required for successful strategy implementation.

While the importance of family cannot be denied, the business is no less important. How the family affects the operation and management of the business and how the influence of the family can be directed towards more productive and profitable outcomes are certainly research objectives worth pursuing. To achieve these objectives, researchers need to take a strategic management perspective, concentrating on comparative studies that will eventually lead to prescription rather than description. Until such a refocusing takes place, progress in the field will continue to be confined to the family in the family-business dyad **[Sharma, 1997]**.

6.8 Critique of the model

The proposed strategic planning process for the family businesses of Saudi Arabia is based on the parallel planning model with incorporation of major factors considered critical for the Saudi Arabian family business operations. The model has been customised to an extent, some of the drawbacks eliminated and some factors considered as critical and identified by research have been incorporated to fit the strategic planning needs of the Saudi Arabian family businesses. Some of the major advantages of the proposed model are as follows:

- The planning process for the family participation in the business and the business strategic planning process based on the external environmental scanning and family commitment is conducted simultaneously and parallel.
- The unified vision of the family and business vision form the basis of the strategic planning process.

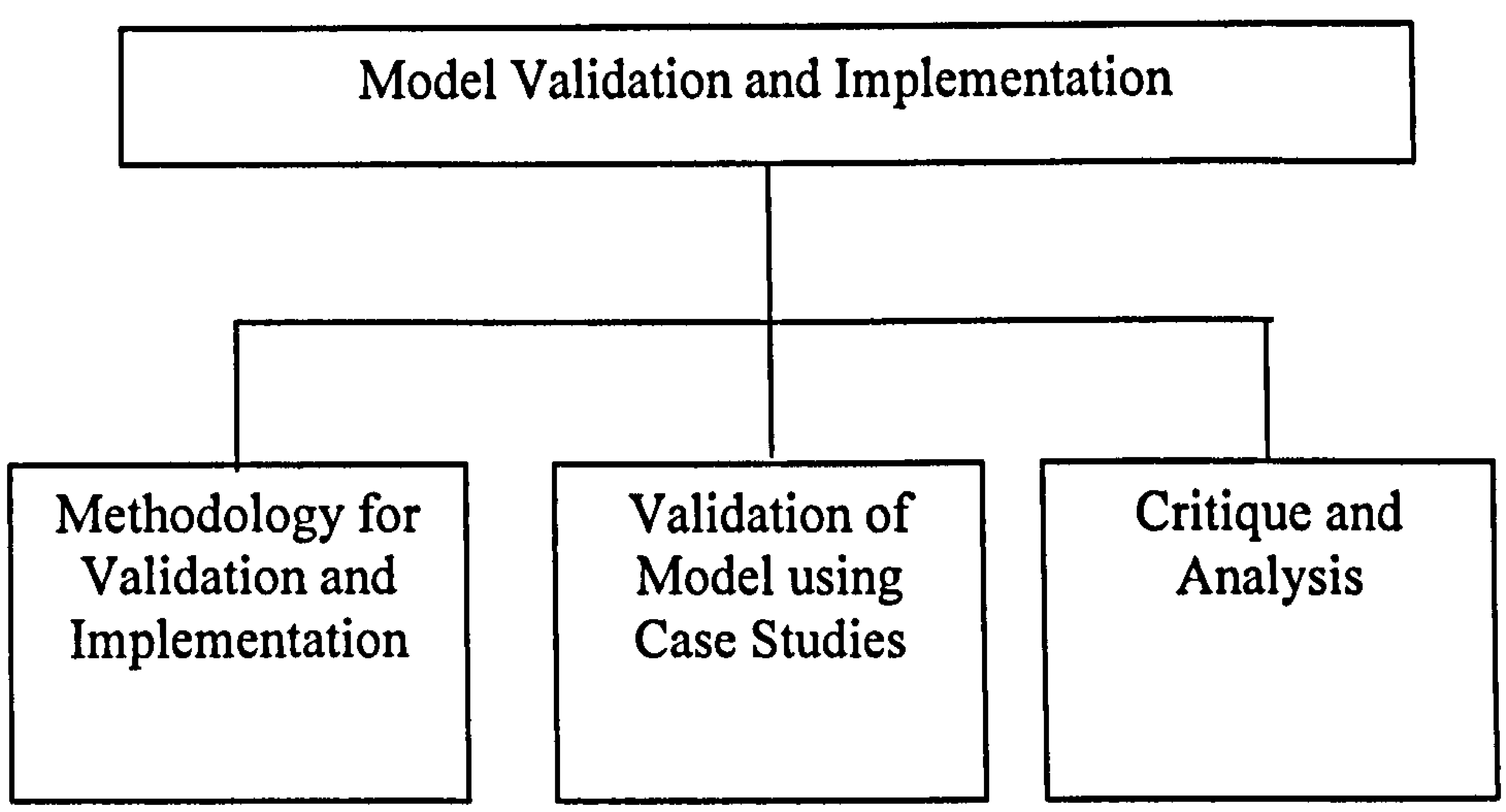
- The model gives importance to the family culture, traditions and value systems during the strategic planning process.
- The model emphasises the importance of family constitution and family councils in the family dynamics and family unity.
- The model gives the family a freedom to analyse the business continuity plan in view of the external opportunities and threats and internal firms' appraisals.
- The model emphasises the family representation in the governing council or the board of the family business.
- The model achieves a balance between the forces of family entity and the forces of business entity.
- The model encompasses all the factors considered vital for the family business success and the strategic planning process of such firms.

The model designed and developed, based on the critical factors identified in Stage 2 Research is a customised model of strategic planning for the family firm of Saudi Arabia.

To identify the applicability of this model in the Saudi family business, it had to be validated and tested in a reasonable number of family owned firms. It was thought that validating the model in 10 firms would be sufficient for this purpose. The selection of the 10 firms was carried out randomly from the sample of 80 firms. Because of the long standing and integrity of the author and the positive relationship he has built with the firms participating in the research, and the benefits such research would bring to them, all 10, apart from one accepted immediately. It took a bit of effort to convince the 10th firm after a lengthy discussion of the advantages and disadvantages of the model and the implementation framework developed. The work required for the validation of the 10 firms took an extensive amount of time to complete and write about and for his reason; only 5 of the 10 firms investigated were included in the validation part of the research. A more detailed analysis of the 10 firms will be published elsewhere.

CHAPTER

7 VALIDATION OF THE STRATEGIC MODEL DEVELOPED



7.1 Validation methodology

Case study analysis is one of the best methods adopted in research to critically analyse a particular case or check the validity of a proposed theory. The case study approach was adopted to check the validity of our proposed model for the strategic planning process in a family owned business in Saudi Arabia.

The major outcome of the strategic planning model in order to plan for the family involvement in the business in such a way that both "family" and "business" needs are fulfilled. This means that the strategic planning process for the business and the family are conducted simultaneously.

A systematic approach for the validation of the proposed model and associated implementation plan is proposed as follows:

1. An assessment of the family business is required in terms of identifying which category the family business falls under; i.e. "Business-oriented", "Family-oriented" or "Balanced Family-Business-oriented", with the latter being the ideal one. To this extent, two assessment forms have been designed for use in the validation methodology; namely "Business" and "Family" assessments.
2. 10 firms were selected from Stages I and II research. The management of the companies were approached with the view to inviting them to participate in the validation process. Out of these 10 companies, 5 agreed to participate and this was considered adequate for the purposes of validation.
3. The "Business" and "Family" assessment forms were then used to assess the extent to which these two factors are considered in isolation or combination to conduct business in these firms. A scoring system was used and this will be described in the sections below. The assessment process was conducted using a special software suite and the Managers carried out the scoring without any help from the author. The output of this phase was a set of scores for Business and Family, both out of 50, as a pre-implementation test.
4. Having completed the assessment exercise, the strategic planning model developed was presented to senior family members of the firms individually. Extensive discussions took place about the structure and comments of the model. Extensive examples were taken to explain all aspects of the model. The outcome of this stage was that all managers were satisfied with the model but needed more time to see how it would work in practice.
5. A daylong session was then arranged with each one of them to see how the implementation would work practically in their firms. They were invited to discuss all aspects of the implementation plan and how it would affect their business and family – based on the same structured assessment forms. This

provided a facility for exploring the pros and cons of the model when implemented for real in the firm. An air of honesty and frankness was the main flavour of the discussions. This was intentional to encourage open discussions and stimulate their thinking about all possible issues. The implementation of the model in any given firm would take years to judge and the use of the same assessment forms to gauge their opinions about the merits of the model is proposed here as part of the validation methodology. To this end, all factors in the assessment were re-scored after the model was supposedly implemented in their firms.

6. Finally, a heated debate comparing pre- and "post" implementation scores were discussed at length and a plan of immediate actions agreed.

All five firms who participated in the validation exercise are now ready and waiting for this model to be fully implemented in their firms and this reflects the true value of the pioneering research.

7.2 "Family" and "Business" assessment

A "family" and "business" assessment forms were designed to assess the family and business side of the investigation respectively before and after the implementation of the proposed strategic planning model. The assessment forms are given in Appendix D and they are described in more detail in the next sections.

The family business assessment form was designed to analyse the relationship between the family and business entities. The relationship between these entities is the precursor in achieving a unified family business vision for the business. As described earlier in the preceding chapters and sections, the family business firm can be family oriented, with more commitment for the family rather than the business, or the family business can be business oriented, with more focus on the business development and little participation of the family or focus of family needs. The ideal relation between the family and business entities is a balanced "Family-Business" relationship, in which there is a unified vision of the family for the business and family participation is ideal in the business, mainly with the focus of business development in order to maintain the family identity and to meet the needs of family. The first step in the proposed model of strategic planning is to identify the relationship between the family and business entities in a family owned firm. This would help in applying the ideal approach in achieving a unified family business vision, which forms the basis for strategic planning approach.

The Family-Business assessment form helps in this approach. The assessment forms as shown in Tables 7.1 and 7.2 have two sections, one for the business assessment and one for the family. Each of the section has 10 questions, which are rated on a scale of 5 points by the respondents. The respondents to describe the actual position of a factor in their firm rate the extent to which a given factor has been successfully been fulfilled questions using a scale of 0 to 5 points. A rating of 0 signifies that the factor under investigation has not been considered at all in the firm; whereas a rating of 5 means that the factor has been fully and successfully implemented. Each factor is given a score equal to the assessment point the respondent marks. The maximum score for all the 10 questions in each section is 50 points. Some of the factors, which have multiple choices, an average score of the responses is taken as the score of the factor under consideration.

Table 7-1. "Business" Assessment Form

	FACTOR	RATING Ratings: Low ← [0, 1, 2, 3, 4, 5] → High						
		1	2	3	4	5	N/A	SCORE
1	Availability of documented mission statement guiding the business organization							
2	Overall profitability of the firm or group of companies							
3	Market share and strength of the firm							
4	Operational expertise in terms of:							
	a. Technology							
	b. Quality Protocol							
	c. Customer Service							
	d. Inventory Management							
	e. Social Responsibility of national development							
	Average Rating							
5	Perceived core strength of the firm in terms of							
	a. Marketing Strength							
	b. Production							
	c. Distribution Channel Network							
	e. Customer Loyalty							
	Average Rating							
6	Relationship with supplier							
7	Ability to Diversify, globalise and form strategic alliances							
8	Ability to counter or influence external environment factors in term of:							
	a. Political (by lobbying)							
	b. Economical (Major contributor to nation's GDP							
	c. Social (Major social development player)							
	d. Competitor (Retain market share)							
	e. Substitute product (Ability to withstand price war)							
	Average Rating							
9	Ability of the firm in R&D, and innovation in product/service							
10	Organizational culture in terms of:							
	a. Coordination & team spirit							
	b. Employee loyalty							
	c. Cross-cultural Management							
	d. Communication in organization							
	e. Reward mechanism							
	f. Employee participation in management							
	g. Employee Training & Development							
	h. Organizational ability to adopt to change							
	Average Score							
	TOTAL SCORE							

Table 7-2. "Family" Assessment Form

	FACTOR	RATING Ratings: Low ← [0, 1, 2, 3, 4, 5] → High						
		1	2	3	4	5	N/A	SCORE
1	Unified vision of family for the business							
2	Level of family participation in business							
3	Generation in control of the business 1st generation – 2 points 2nd generation – 3 points 3rd generation – 4 points More than 3rd generation – 5 points							
4	Presence of family constitution Yes (5 points) No (0)							
5	Perceived Core strengths of Family in terms of: (a) Family Unity (b) Family Reputation & Good will in market (c) Family guiding rules & Constitution (d) Family Values & Culture (e) Business Edu & Trg of Family Members (f) Personal grooming of next Generation Average Score							
6	Rating of Family Interpersonal dynamics in terms: (a) Relation with head of the family or founder owner (b) Relation with brothers & other siblings / cousins © Freedom of family members to select a career of their choice (d) Personal Satisfaction of profit sharing (e) Family Leadership Average Score							
7	Rating of Succession Planning in the firm							
8	Rating of Conflict management in the firm							
9	Rating of factors that affect Decision Making (a) Family needs are a priority while formulating business plans (b) Collective Family decision for business plan © Family Council plans for family continuity plan in the business (d) Preference for family members over non-family managers in the firm (e) Retirement Planning Average Score							
10	Did the business split due to a conflict (a) Yes – 0 points (b) No- 5 Points							
	TOTAL SCORE							

7.2.1 Assessment of "Strategic Planning" of the Family Business

The score of Family assessment and Business assessment can be interpreted as follow:

- Family Score < 30 & Business Score > 30: Business oriented firm
- Family Score >30 & business score < 30: Family oriented firm
- Family Score < 30 and Business Score <30: Poor family and business planning in the firm.
- Both Family and Business scores more than 30 each and total score of both more than 60 is an ideal Family-Business planning firm.

7.2.2 Design of a software suite for the validation exercise

In order to facilitate the data capture and visualisation during the validation phase, a software suite was developed. The software produces all data analysis results, which can be viewed in tabular as well as graphical outputs. Gaps between "Business" and "Family" oriented activities could be assessed and displayed immediately. The software developed was used in the 5 Case Studies, both before and after the "implementation" of the proposed model. The managers of the firms interviewed were encouraged to keep a copy of the software and continuously appraise their "Business" and "Family" aspects.

Appendix E gives the calculation methods for obtaining the rating scores for the business assessment and the family and personal assessment. A dedicated software has been developed in Visual Basic 6.0 to easily capture and analyse data. Screen shots of data capture and analysis are given in Appendix F. The software is based on MS Access database management software.

7.3 Case study No. 1

The 001 company is in the business of timber and woodcraft. They are in the interior designing and are the wholesale merchants for wood and plywood. They also have a show room for the furniture. The company is located with its head office in the city of Dhahran. They are the biggest stockiest of timber and plywood in the Middle East. They have 4 branches in the Saudi Arabia and they have about 200 sub dealers. They also have agents in Dubai. They supply raw materials to furniture maker and the construction industries. They also manufacture furniture and have a show room for the finished product. Thus, they have forward integration of the product they sell. It is a family owned business with a different way of doing business. The family consists of 5 brothers and sisters. All of them along with the mother are partners in the business. However, the eldest son operates the entire business. He is the president of the company and the major shareholder. He has all the autonomy and authority to run the business as per his planning. None of the other family members actively participates in the business. They are all passive partners in the business. They only monitor the profits. They have no say in any of the business matters. They meet only once in a year to distribute the profits among them. The present questionnaire and interviews were conducted on the president of the company.

7.3.1 History of the company

The grand father of the president of the company started the business. He was a small time merchant trading in food products. The grand father started the business in 1920 by getting food products from India and Dubai and sold the same in the local market. He had two sons. Both these sons joined in a partnership and started the building material business in the year 1945. The expected capital investment according to the president of the company was about 20,000 U.S Dollars. The father of the present president of the company died in 1976 and at the time of his demise, the company was in huge losses and bankrupt. There were huge loans outstanding towards various banks. The losses were in eight digit figures as claimed by the present president. After the demise of father of the present president, the company was dissolved and the present president broke up with his uncle in the partnership. The father of the present president did not want his son to join the business. He had sent him to a medical school to become a doctor. He left the medical school after the death of his father to run the business. His father did allow him occasionally to run the business during the times, when he uses to come home on vacation form the medical school. The family wanted to shut down the business after the death of the founder owner, the father of the present president. However, the present president of the company, who also was the eldest son of the family wanted to run the business. He convinced the other members of the family including his mother to pool all the family resources and individual family members share in the property, to start the business again. It was agreed upon that, the eldest son would run the business and the others would only share the profits. They were not interested in running the business. This was only an oral agreement and there are no legal documents about the partnership. At that time when the business was started, the mother had the highest share in the business. Over a period of time, she sold her share to the eldest son and invested her profits and money in real estate. Presently the eldest son who is also the president of the company holds the major shares of the company. Presently the company has about 43 people working in the various branches and offices. They also have contractual labour working in its workshops.

7.3.2 Profile and analysis of the company

The company is the largest stockist of wood and wood products in the Middle East and is reputed for its quality products. The company had no losses reported for the past 25 years. The analysis of this company is based on the study conducted and on the information gathered from the questionnaires.

The president of the company has complete control on the company and he is the only authority who takes all the major decisions of the company. He has a very conservative approach of management and does not trust any one other than himself. Even when there are opportunities for the company to expand and grow, he does not want to expand or diversify as he openly admits that he has a conservative style of management and does not want to expand more. He is very emotionally attached to the business as he has virtually controlled it or ran it for the past 30 years. The profits earned by him, he has invested in real estate, Saudi stock market and provides bridging finance to other companies.

There is no organised planning procedure in the company. He has a close group of managers, whom he trusts and consults on all major decisions. Among these people he has his assistant who is his close confident and also his major advisor. The other person is his sales manager. Among his close confidants, the assistant has been with him right from the time he started the business or took over the business in 1976. They had worked hard to build the business. They had even worked on holidays in the initial days, when the business was struggling. In the company, the president accepts that they do not have an organised planning procedure. Plans are formulated in ad hoc manner, when ever a crisis comes or when a new business opportunity comes in way. He informed that the core team which consist of his assistant and the sales manager meet once in a month to take stock of the business progress and the future tenders, which they will be bidding in the future business. They sit through the informal meeting and take the business decisions. Sometimes he says that he takes the business decisions without consulting any of the managers. He also feels that the method followed by him is not an adequate way of planning but at the same time he does not believe in formulating long term plans as long as five years. He only believes in formulating six months plan. He feels long-term plans as long as a year or so are too difficult to predict. He also agrees they do not have the expertise in management to plan or predict that long in time span. One of the difficulties that he says, he feels in his style of planning is that he is not able to plan an adequate performance appraisal, as six months is too short to analyse the abilities of people in a business operation. During the planning process, there is nothing like a fact gathering report, or consulting the employee's suggestions. The company occasionally consults its customers, who are the distributors of the company. They are sent questionnaires, which try to analyse their satisfaction, on the service provided by the company, any problems they faced in business transactions, and any suggestions they can offer to improve the company. The questionnaire has been developed in house, based on the regular questionnaires. There are functional departments like purchasing, finance, marketing & sales, human resource and production, each with a managerial head. None of these departmental heads has complete autonomy or authority. They are merely the persons who implement and control the corporate strategy and policy. They report directly to the president and his consent is necessary in all-major decisions of each individual department. They have the freedom only in day-to-day operations. The corporate policy or the strategy is communicated to the departmental heads and they in turn communicate it to the various staff and workers working in their departments. The president did agree that during the policy implementation, there is lot of resentment among the workers, and sometimes he intervenes to convince them and sometimes the managers handle the situation. However, the company does have schemes like bonus, letter of appreciation and other non-incentive schemes for best performance of an employee. There is very little delegation of power and authority to the managers. The president confirmed that there is a power struggle among the managers of the company; each trying to get closer to the president and he fully exploits the situation.

When asked to name a few factors that he feels that affect his company, in the external environment, he named the following factors:

- Political: The present situation of the gulf, insecurity and political imbalance in the region, and the royal family interference in the business.
- Economical: the fluctuating oil prices, too much dependence of the economy on the oil prices and he feels the paying capacity of an average Saudi has come down after the gulf war.
- Social: He feels the increase in the birth rate of Saudi's in the past two decades is good as it helps his business. He also feels his business is protected from god because he pays ZAKAT on time (Cultural factor).
- Technology: He was of the opinion that technology has helped him as the information technology is helping him. He told that the inventory of his production unit consisted of 5000 different items and earlier he used to hire 4 people to maintain the stock registers. Now he has only one to do the job.
- Environmental: he is of the opinion that the green peace organisation is a threat to his business and the WTO and GATT are going to threat his business in future.

When asked any specific problem that is facing his business, he stated that the growing trend of corruption among the government personnel of various organisations, with which the company does business, has been creating a problem for his business. He feels his company works on certain ideals of quality and he is not willing to pay bribes to various officials of governmental agencies, with whom the company regularly does the business. He is of the opinion that there are some small time traders who pay the bribes and get the tenders cleared as a big threat to his business. He names it as unethical competition.

When asked the core strength of the company, by which it is successful, the president feels the success of his company is mainly because his company is very honest with the customers. He cited many customers who have come back for repeated purchases at his show room. He said the company policy is not to compromise on the price and quality.

The other reasons he quotes, as the company's core strength is the good credit rating of the company among financial institutions. He has good reputation as a trusted client of many banks. In addition, he feels cash generation for expansion of the business is not a problem.

On the competitor analysis, he informed that he constantly monitors some of the following parameters of the rival company. They are:

- Source of supply
- Quality of products
- Stocks (the level of stocks plays an important role in this business)
- Satisfaction of the competitors' employees.

The president has close links of friendship with some of the employees of his rival businessmen. These employees occasionally drop in his office for tea and pass on vital information about the competitor voluntarily.

The president did agree that he is not happy with the planning methodology followed by him in the company. He also confided that they lost some major business orders due to wrong planning. There is good market name for the company and it has lot of potential to diversify into other areas of business and also expand. However, the president admits that he has a very conservative style of management and does not want to expand further as he may have to relocate the family or move out and away from the family to set up and expand the business in other regions, which he does not want to do. He feels for him personally the family is more important than the business. He feels the business exists for the sake of family and it is meant for the family comfort and to satisfy the needs of family members.

7.3.3 Family analysis

The family consists of 5 brothers and sisters. All of them along with the mother are partners in the business. However, none of them participates in the business. It only the eldest son running the business, the other only share the profits. All the members are living as nuclear families. The president of the company, who is the major shareholder, has two children - one son and one daughter. The son has been sent to a business school and groomed to take over the business. All the families stay as nuclear families. The president of the company is more emotionally attached to his elder sister, who is based in Kuwait and he consults her for some of the major decisions of the company. There are no distant relatives of the president working in the company. He confined that he did not like the family members to be in the business as he feels it affects the business due to their interference. This is his assumption only and he did not have any bad prior experience about this aspect. He has never employed any family member including a distant relative in the company. When asked whether he would like his son to join his business, he responded saying he would like it but he feels he cannot trust him also. He feels his business is his identity and he cannot trust it with his son. Presently his son is also not participating in the business. After a graduate degree in business management, he has gone to America for further studies. According to the president of the company, his son has more interest in becoming an academician rather than run the business. However, eventually he has to take over the business one day. During the absence of the president of the company, his younger brother helps in supervising the business. He does not have any decision-making authority. He would only supervise it for a few days in the absence of the president.

7.3.4 Identified major conflicts in the family

The partnership among the brothers and sisters has been based only on an oral agreement. There are no legal signed papers about the partnership or there does not exist any family constitution. The younger brother of the president has two sons who are keen in joining the business. They are also being encouraged and groomed by the younger brother to join the business. The eldest and the only son of the president of the company are not very keen in running the business. This has the potential of creating a conflict in the family. The president of the company confided during the talks that he feels his business has a threat from the children of his younger brother and he fears this might create a rift between the cousins. He feels there is already a cold war among them. This is one of the reasons for drafting a family constitution. At this point of time, he feels he would be exposing himself if he stresses for a written agreement of the partnership deed.

The family members who are partners in the business meet once in a year, where the president briefs them about the business position, the profits made and the distribution of profits. Apart from these, none of the family members interferes in the business.

Occasionally in case of any conflict in the family, the members approach the mother, who in turn talks to the eldest son to resolve the conflict. The president of the company feels there is an urgent need for a family constitution to safeguard the interest of his and to set up the rules for the family members who would like to enter the family business. He feels the family members should work in other firms, gain the requisite experience and than plan to join the family owned business.

7.3.5 Personal analysis of the owner

The president of the company, who is also the major shareholder of the company, is very emotionally attached to the company. He has built the company from the scratch after incurring huge losses during the time of his father. He is very dynamic and at the same time is very autocratic with the staff. He does not trust anyone with the business. He is very conservative in his management approach and towards the business development. Right from his childhood, he was very interested in the business. His father had sent him to a medical school, but he discontinued his studies to start the business after the demise of his father. He told that the basic tricks of the trade, he had learned from his father, whom he would help during his school vacations. When questioned about the personal opinion of his on the relative importance of business and the family, he asserted that for him the family is most important and that he would sacrifice the business in order to protect the family interest.

He confided that when he took over the business of his father after his demise, he initially had some resistance or rather non-co-operation from some of the managers who had served his father. However, over a period of time, they realised his interest and dedication towards the company and they later helped him in his efforts of building a formidable company. Personally, the president of the company was confused over whether he wanted his son to join the business or seek a career outside. The son has interest in other career. The owner feels he cannot let his son run the business when he is alive as he cannot trust him, but would like the son to inherit the business after him and run the company. He is personally worried on this front as he foresees conflict of interest between the cousins or the third generation. He is feverishly trying for a solution.

As per the distribution of the profits, the owner is happy as he gets his share of profit and an extra fixed amount of remuneration for running the business. He admits that the family does influence his decision-making ability. He admits that the family interest is priority for him, while making any major business decision. He also strongly advocates that while planning the future plans or the long-term plans of the company, the management should keep the family interest in mind.

On the present globalisation trend, he felt the WTO and GATT would affect his business and he felt neither he nor the government are completely geared up to face the situation. At the end of the discussion, the owner admitted that he realised the importance of strategic planning for the family business only after the discussion. He also was thankful that some of the issues and problems could come out only due to the discussion. He is serious to implement strategic planning process and seriously plan for a family constitution to protect his business.

7.3.6 Major observations in the Study

- Absence of any strategic planning process in the company.
- The planning is discretionary or incremental.
- Conflict of cousins to take over the company.
- Absence of any family rules or constitution to govern the behaviour of individual family members and to resolve any conflicts.
- An autocratic owner, who has little trust in anyone including the son.
- Unprofessional staff managing various departments of the firm.
- In adequate market information and environmental analysis by the firm.
- Under utilization of the company resources.

7.3.7 Pre-model implementation assessment score

The analysis indicates that the above-mentioned case has very poor form of business planning and poor form of family plan and participation in the business. The analysis also indicates that the owner of the business gives more importance to the business rather than the family. At the same time, the family lacked cohesion, a unified vision for the business and also did not have a written family constitution or organised family councils. Our proposed model was introduced in the firm in the following manner:

1. A family meeting was organised with all the active and non-active family members of the business attending it. The family members were asked to explain their views and expectations from the family business. The family members had lot of differing expectations from the business. There were lot of hidden grievances and conflicts, which were discussed freely and frankly with the senior most member of the family, in this case the mother of the owner members acting as the moderator. The views of all the family members were recorded. These meetings were conducted in about 4 different sessions. In the final session, the members were explained the importance of family participation in the business, the role of family members in the business, the importance of unified family vision for the business and the need for strategic planning for the business.
2. In the next stage, a family council was formulated with the mother of the family as the chairperson and the rules of membership and frequency of the family council were formulated.
3. A family constitution was framed with the rules of business entry, exit and profit sharing. The succession plans were formed with the eldest son of the major shareholder to succeed the business and the cousins from other shareholders would also be given a representation on the board. The number of family members on the board was increased to four instead of being a single member running the business. A family vision for the business was framed.
4. The strategic planning process at the firm was initiated by participation of all functional manager, regional managers and show room managers. All the managers were asked to report the forces they faced during the business operations in the external market, were asked to rate critically the facilities and

core strengths they perceived in their respective functional departments. Systematic data about the industry performance and competitors was collected. An analysis was conducted on the relative market share of the business. It was identified that the firm was operating in an industry, which was growing, due to increased real estate activity in the kingdom. A growth strategy with backward integration was planned for the business. There was scope for diversification, but the family preferred to remain focused in one area of business for some more time before planning a diversification strategy.

5. Based on the strategy, structural changes were designed in the organisation, authority and responsibility were decentralised and non-family managers were given the freedom of decision-making based on the organisation policy. Regional managers were given the authority to formulate strategies based on local market conditions and were assigned annual budgets to operate. A nation wide advertising campaign was implemented with the new structure; a Mission statement and vision displayed on the company brochures. Customers were frequently contacted for feedback. Currently an ISO certification is underway at the firm.

6. Post implementation of the model some of the remarkable changes noticed in the firm were:

   - A well organised strategic planning process.

   - Good channels of communication and interaction among the family members.

   - An established family constitution and family council

   - Increased interaction between non-family managers and family members active in the business.

   - Increased sales in the region, higher profit margins in the first quarter itself and higher customer satisfaction levels.

   - Well-organised quality systems in the company and low employee turnover ratio.

The succeeding generation children showing more interest in the family business.

Six months after the implementation of the model, the same family assessment form was used to assess the firm. The results of the study are shown below.

7.3.8 Post-model implementation assessment score

Calculated assessment scores are shown diagrammatically in Figures 7.1 and 7.2. Post strategic planning model implementation, i.e. the analysis of the firm after six months has revealed that the firm has an excellent strategic planning model and family participation planning. The firm had achieved the balance of "Family-Business", which is an ideal form of family owned business, which has equal representation of business and family needs. The analysis did not consider the financial performance indicators, considered in the pre assessment form, as post assessment of the business was done only after a quarter. This case study indicates the success of the proposed model.

Figure 7-1. Business Assessment for Case Study No.1

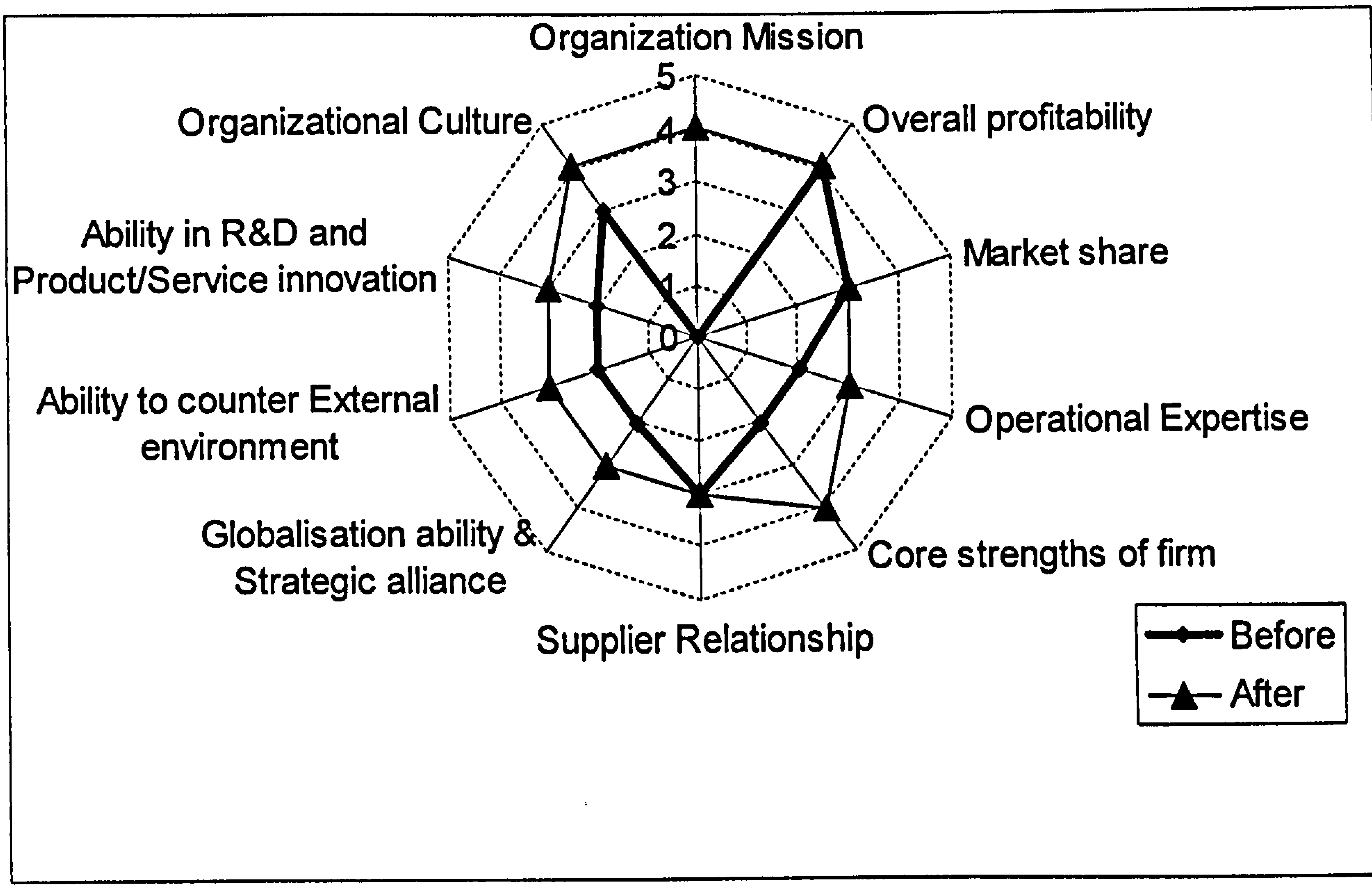
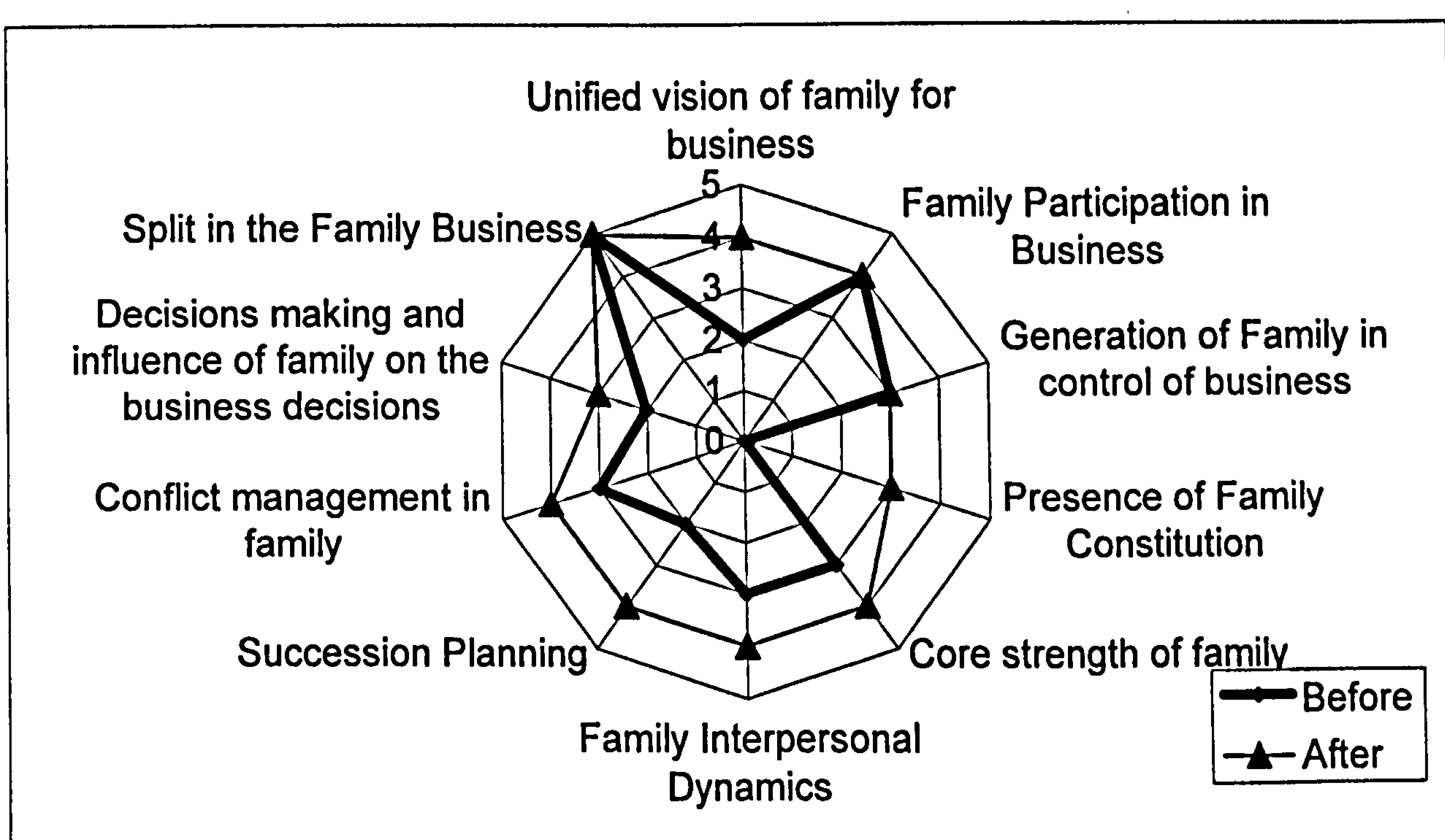


Figure 7-2. Family Assessment for Case Study No.1



7.4 Case Study No.2

On 27th July 2000, an in depth interview was conducted. The person interviewed was the president of the 002 company. He is the second-generation management executive, is an MBA graduate, and has been in the position of president since 1986.

7.4.1 A brief profile of the company

The company in the case study is one of the largest industrial houses of Saudi Arabia and has a diversified business in various sectors. The company was started in 1965 by the founder and was basically into the trucking business. The capital investment by the founder in 1965 was the cost of one new truck. It was about 50,000 Saudi Riyals. The group continues to be a market leader in the trucking business and has diversified into steel, aluminium, food, glass, automobiles, international freight, heavy lift transport and engineering, logistics and distribution and travel agency. The present total asset of the group is over 500 million Saudi Riyals. The company is a holding company.

7.4.2 Results from the questionnaire answered by the group president

The founder owner started the group and it did not include any family member. Presently the business has three active family members, all of them the sons of the founder. The eldest son was working unofficially for the business since 1976 and he learned the business from the founder, the father. He was formally commissioned as the group president in 1986. The other sons joined the business in 1998 and 2000. The other two sons are working as the Vice presidents of two different divisions of the group. Four non-family business executives, who are well-qualified management members, assist the family business executives. Among them, the finance vice president logistics has been with the founder owner from the beginning and is considered the fourth son of the business family.

There is no formal mechanism of strategic planning process in the company. The decision-making and the planning process is more of an informal method in which the departmental heads meet the chairman and the president as and when there are business opportunities arise and plan more on a project basis. They also meet once in a month and once in a year where they study the performance retrospectively and analyse their decisions. The departmental heads are given functional autonomy and they discuss the policy matters and important project decisions with the chairman and the president. Among the non-family executives, the most influential manager is the finance director in the company. The strategic planning process does not exist in the company, as there is no management philosophy of planning. The president feels the strategic planning process is an exercise, which involves a lot of expenditure and time. Moreover, he is of the opinion that the planning is required only for a year at the most, five-year plans are not feasible as the world affairs, and the external environment is changing very fast. Their planning for the company is mostly budget oriented. The group does not have any vision or mission statement. The group philosophy is mostly a few set of statements developed over a year based on their experience and the family in the business plays a major role in formulating the philosophy of the companies operation. Rather it is the family philosophy, tradition and name in the region on which the business is being conducted. On the other hand, it is noticed the family has a constitution for itself and business but there is no separate business constitution and business mission. The present president, the eldest son of the family being a management graduate is aware of the importance of the strategic planning, the success stories of companies who follow strategic planning process and is seriously considering of establishing a formal strategic planning process in the company. The other reason for establishing a proper strategic planning process in the company is most of the management executives have an engineering background of education and they conduct business based on the policy and set protocols of the company established over a period of years of experience of the founder owner. The president is making all the efforts in imparting management skills to his departmental heads by conducting frequent management development programs. The family has a strong sense of togetherness and has a unified vision for the growth of the company. This vision of the family is applied to the business as its growth. The family members are strongly influenced by the founder owner and he is more like a role model for them. He has a very strong cultural, psychological and character influence on the family members.

Since there is no mechanism of formal strategic planning process in the group, there are no formal established procedures of external environment scanning, data collection, internal analysis and SWOT analysis. The planning is mostly ad hoc based on a business opportunity and for a short period of time like projects. The other reason why the family did not think of establishing a formal strategic planning process is because they concentrated on growth and diversification, and since the market had lot of potential and the founder was very aggressive in his approach to the growth in the market and they had a rapid expansion and profits kept coming. They always planned for growth and protecting the existing business and did not concentrate on the strategic planning process.

When the president of the company was asked to name a few external environment factors, which influenced the group, he named the Saudi government regulations on business, lack of professional staff, high growth in technology and unfair competition from small time business organisations as the major factors affecting his group. To the question on identifying the core strengths of the group, the president listed the following: the informal relationship among the staff of the group, the strong morale of the work force, the harmony among the business family, the enormous amount of goodwill enjoyed by the founder member in the province, the harmony among the brothers and partners in the business, and the influence of the Korean way of management (they have the agency of a Korean brand automobile with the group).

Since the planning is very ad-hoc, informal and mostly on a project basis, the president and the chairman's decision mostly influence it and hence there is no optimal benchmark to judge the quality of the decisions taken and neither there is a proper performance appraisal method. The decision analysis is mostly done retrospectively and the individual departmental head is held accountable for any failure in the plans, when the company misses a business opportunity. The performance appraisal is mostly done on the targets, which are atrocity set once in four months for the managers. The planning is not organised either in the top to bottom or from bottom to top manner. The decisions are taken after deliberations with the individual managers and the president or the chairman sets the policy after taking a decision. The departmental heads in turn communicate the policy matters and the set goals to their subordinate staff. The president claims the departmental heads follow a method of planning with their subordinates, which is similar to MBO. In addition, for the delegation of authority and power among the staff, the president accepted that there is no formal delegation of authority and it is not very clear in the group. To achieve the targets, the company gives both monetary and non-monetary incentives to its employees. The president agreed that there is some times conflict of interests in the business plans and the family plans and there does occur some conflicts during the ad-hoc planning process between the brothers, as there is some difference of opinion.

In the competitor analysis, the president named the disorganised competitors as a major problem and he did not have any specific parameters to be monitored in the competitors. The president after he took over made new departments in the company like the IT, audit and purchasing. The organisation was divided into sectors and he brought in new management experts to assist him.

7.4.3 Family factors

The family consists of 9 brothers and sisters. The eldest brother took the position of president in the year 1986. Two other brothers joined the business in 1998 and 2000. Two more brothers are still in the schooling. The family is a close knit one, with all the members staying in one compound and the married members have their individual family in the same compound. Some of the cousins are also working in the company but they do not have any special privileges when compared to any other employee. The founder owner has a very strong influence on the other family members and he is considered a role model for others. The founder owner had been canalising. The interest of his children towards the business right from their childhood. The eldest son has the strongest influence of the founder since his childhood. The founder has been discussing about the business, the importance of it for the family with the eldest son. In addition, since the other children were much younger compared to the eldest son, he was initiated into the business first. The founder was also keen on imparting a professional education to his successor hence he sends him to a university to take a degree in Business management. However, he took care that the successor completed his education while staying close to the home and while assisting the founder in the business. In spite of having a fine financial background, the founder did not send the elder son to a university away from the home. The succession planning was well planned and carried out in this family. The founder only for the business groomed the eldest son. The founder is very keen and aggressive that all the family members should work only for the business and none can discuss with the founder the topic of independent career planning. The founder is also keen that the other family members particularly the sons should get the formal education to enter the business.

The family has a well-defined constitution, which is not open for discussion with the non-family members. The constitution defines the rights, the shares of the members and the profit distribution methods. The girl child of the family also has a share in the company and in the profits. The share of the girl child as per the Islamic tradition is half the share of the boy. The founder owner is looking after or the caretaker of the girl child's share and profits. There is no flexibility in career planning of the children as the founder mostly guides them. The family has a philosophy that family is most important and they have a shared vision for the family that the business can be sacrificed for the better future of family.

At the place of work, the son enjoys a lot of freedom from the founder. The founder is slowly phasing himself out of the business and is handing over the responsibility to the son. Since the founder is emotionally attached to the business, he still keeps watch over the decisions of the son.

At the time of the eldest son taking control as the president of the company, a senior manager was displaced to accommodate the son. Initially the father and other senior managers of the family business trained the son. Later when the son took over he was given independent charge and autonomy. The president did agree that he faced a few problems when he took control of the company as he was working with that group of non-family managers, who were very close to the founder and were close confidants of him. They were mentally tuned to work with the founder owner and when the son took over, he faced some resistance to change from the managers, as they were not used to the modern methods of business operations. However, he could convince them with the results and later he had all the co-operation from the non-family managers. The son made some structural changes and operational changes in the business, which proved very successful.

The succession planning is well defined that the eldest son would take charge and the family constitution lays down the rules of entering the business. It suggests that all the members of the family business should be active members of the business with some formal education. The members who are not capable of entering the business or who do not have interest in the family business are to sell their shares to the rest of the family members or be only dormant partners to share the profits. The three major philosophical points on which the family is bound are:

1. Keep the family tight and never split the family for the sake of business.
2. Develop the business for the sake of family.
3. Personal interest should rarely come to mind.

The founder owner is keen on retirement. There is no formal retirement plan of the founder owner. There is no financial outlay allocated to the founder on his retirement. He is slowly handing over the charge to the eldest son. The eldest son or the president is now trying to be a role model for his brothers who have recently joined him in the business. He feels his brothers are more talented than he is.

Conflict management is well planned in the family. The family constitution has all the rules to make the roles of each member in the business very clear. It encourages discussion among the members in case of a conflict and the father or the founder has the veto power to over rule any decision by the family constitution. So far, there has never been a conflict and a split in the family business. The family members in the business do not feel it difficult to play multiple roles as a father, son, colleagues, business partner, manager etc. they feel it is very easy as the founder has groomed them to be in the family business and the personality of founder has a profound effect on the other family members.

7.4.4 Personal factors

The president who is the second-generation member of the family business enjoys his job and does not regret entering the family business. He feels his other brothers are also well talented but he justifies his position as the president because at a given point of time retrospectively the brothers were too young to take charge of the business and he justifies his method of succession or taking charge of the company. Personally, he feels very committed towards his father as he has lot of influence from the founder during his training days in the company. He has new ideas and is keen on establishing a proper method of strategic planning process in the group as he feels the external environment due to its dynamic nature is having a profound effect on the business operations. He feels initially there was resistance to change from the non-family managers working with his father but slowly he could win over their confidence and today enjoys a lot of freedom in decision-making in the company. The family and its members are culture bound and the principles of Islam have a profound effect on their interpersonal behaviour.

The family constitution prevents any individual member from having their individual business and in this way prevents individualistic approach towards life. The president feels the members should have the freedom to plan for their individual children in a much better way. He does have some friction in the business decision-making process from his brothers, but he is very accommodative and selfless in his approach towards his brothers, as he would like to emulate the role of the founder. He is liberal in his approach towards the family members career planning. He is of the view that every individual should be given the freedom to plan for his or her career. He feels if the persons not interested in the family business if they leave it is good for both the business and the individuals. He also supports the idea of separate business for each family member, rather than work as a group in the near future.

He strongly feels the family needs have to be considered during the planning of the business or while formulating the strategic plans of the business. He is of the opinion that the business exists for the sake of the family or to fulfil the needs of the family. He does not feel that the business is an employment arena for the family members, but at the same time, he does not want to take only non-family members as the managers in the company. He is not very clear in the idea of employing family or non-family members in the executive or top functions of the group.

He is against the idea of converting family business as a joint stock company as he feels the joint stock companies fail very soon as they are not adaptable. He is of the opinion that the family plan and the business plan are one and hence the family plans should be the basis for the business plan. In addition, he is of the opinion that in his groups the family and business plans is perfectly aligned. He is very happy with the remuneration or the share of his profits. He gives importance to loyalty from both family and non-family members of the business towards the business.

He does have some conflict of interest from the brothers and feels his decision-making ability for the family and his conflicts influence the business with the brothers while formulating the company plans. He is very serious of implementing a formal well-established procedure of strategic planning for the group. He is also a bit frustrated by the interference of the founder and him not taking a retirement and giving total control to him. However, he does not speak up about this issue with the founder, as he is culture bound. He is not very keen his children should join the business, as he is very liberal about individual career planning.

7.4.5 Major findings in the case study

These are summarised as follows:

- There does not exist any formal strategic planning process in the group. The strategic plans are mostly ad-hoc and short term plans.
- No environmental scanning techniques or machinery employed to study the forces of market.
- Not many management experts in the company. Most of the departmental heads are engineering experts and conduct routine business on earlier established norms by the founder.
- Founder has profound influence on all business and individual decisions of the family members.
- The senior management does not have any commitment for the strategic planning process as they feel it is waste of time and money. They still do the business on a conventional way.
- They are not geared up for the changing economy and the future onslaught of multinationals.
- There does not exist any mission for the company and hence lack a direction. They are only concentrating on growth.

- There is some amount of hidden resentment or difference of opinion among the brothers in the process of decision-making.
- The eldest son is having a latent frustration against the influence of the founder owner.
- There are no well laid out rules for the succession planning and time of announcement of succession planning.
- There is no proper competitor analysis procedures established.
- The employees work only for monetary gain as they do not have a vision or mission and they lack a sense of direction.
- The management is feeling the necessity of strategic planning process due to reduced margins of profit due to increased competition and volatile markets.
- Since there does not exists any formal strategic planning process in the group, they have not conducted a portfolio analysis and the group can divert most its earnings from the cash cows to areas or sectors of growth by growth strategies or diversification strategies.

7.4.6 Pre-model implementation assessment score

As the case study indicates, the business is more family oriented. The president of the company, who is the second generation son, managing the business had also attended a course on Family Business management and was aware of the major forces of dynamics in a family owned firm. He was instrumental in formulation of family constitution and the family councils. Yet he had a mindset that the business exists for the family and that the business can be sacrificed for the sake of family. He did not believe in long-term strategic planning and focused mainly on the short-term plans. Decision-making was centralised and there was no Mission and Vision statement for the business.

7.4.7 Model implementation

Since the president of the company had knowledge of the family business management, he was more than willing to implements our proposed model in the company. One of the major drawbacks in the model implementation was the non-availability of the family constitution. We had information that he had took the help of a leading family business consultant to frame the family constitution, but refused to share the details or the contents of the family constitution as he felt it was not to be revealed for public or research. He only informed us the basic and major contents of the constitution. We proceeded to implement the model by calling a general meeting or seminar for two days. All the active family members, the founder owner and all the functional and regional managers attended the program. We informed the gathering about the assessment of the company and felt the company seriously lacked the imitative due to non-participation of functional managers and lack of proper strategic management. Most of the functional managers were engineers by profession and lacked the knowledge or information about the details of strategic planning methods. A faculty of strategic management from the leading university visited the meeting and presented a 6 hours presentation about the importance of strategic planning for the firms, the methods of conducting the strategic plans and systematic approaches to external environment assessment and internal assessment of the firms. The lecture was well received and a few mock studies were conducted to train the functional managers.

In the next day session, a brain storming session was conducted to formulate the firm's mission and vision statements and the objectives. Company policies were discussed freely and criticised freely by the functional managers and regional managers. This was the first time in the history of the company that all the managers were interacting together at the same time with the owner and president. Major reforms were proposed, accepted, and documented. More autonomy and decision making power were given to regional and functional managers. The session ended with all the managers pledging of better interaction among themselves and the corporate office, more coordination of efforts and better quality output and productivity.

7.4.8 Post-model implementation assessment score

Calculated assessment scores are shown diagrammatically in Figures 7.3 and 7.4. Post implementation of the model, i.e. the analysis of the firm six months latter, indicate that the firm now has a balance of both the family and business entities. The firm now has a well-organised strategic planning mechanism with the participation of the family in the management and planning process for the family owned business. This model has increased the coordination between the family and business entities.

Figure 7-3. Business Assessment for Case Study No. 2

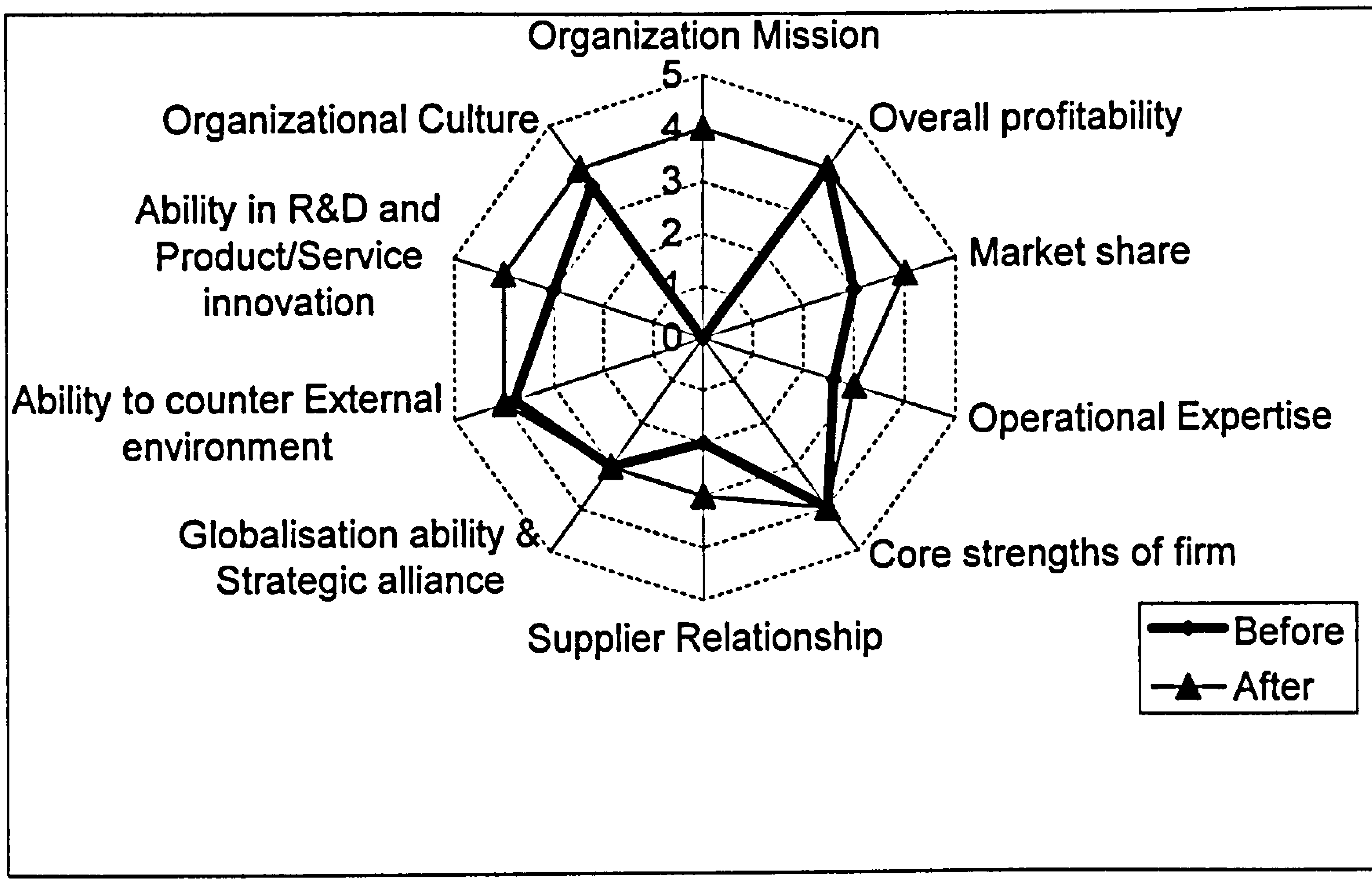
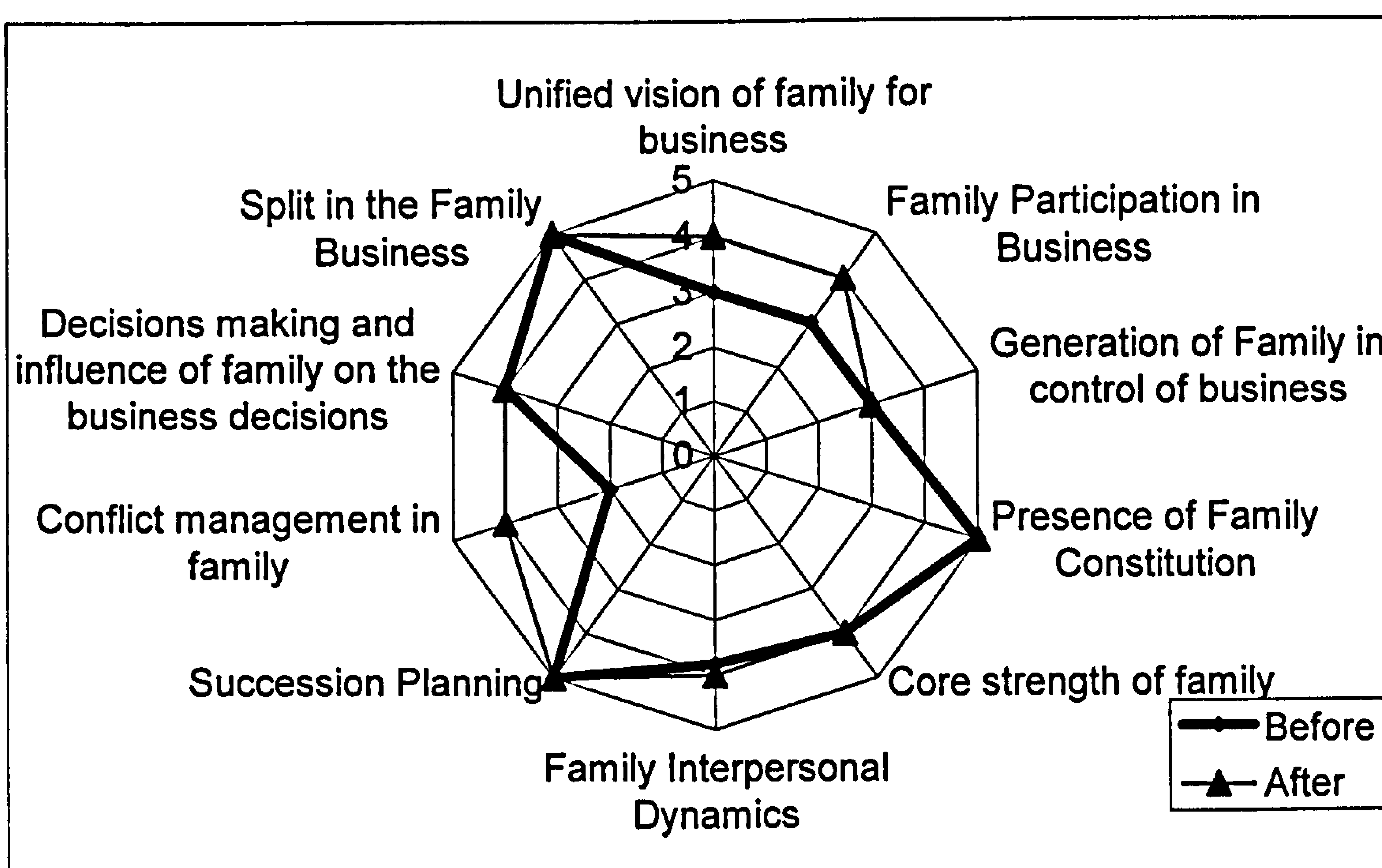


Figure 7-4 Family Assessment for Case Study No.2



7.5 Case Study No.3

The 003 group of companies is one of the largest business houses of Saudi Arabia. It is a family owned business, with the second generation in command of the company and the third generation is working along with the second generation. The business group has diversified business. They are one of the largest interior decorators in Saudi Arabia. There business operations are in interior decoration, contracting and trading company, medical equipment distribution division, optics, manufacturing contact lenses and carpet making industry. They also have a contracting and maintenance division for the air conditioning ducts and a leading distributor of escalators.

The second generation, which is presently managing the company, consists of two brothers who are active members of the business. Their children are also working in the company as shareholders. The present interview was conducted with the president of the company, who is the youngest of all the brothers. He belongs to the second generation. His children and his elder brothers' children are also working in the company as partners.

7.5.1 History of the company

The grand father of the president, at Mecca, started the business about 120 years back. The family is considered as a trader's family in the city of Mecca. They owned a major property in the city of Mecca. They were considered a respectable and elite family of Mecca. He mainly dealt in spices. Later the father of the president and his two brothers formed a partnership and started the trading company. They diversified into other food products like importing cheese from Australia, Rice from America and sold in the local market. They also imported items like women scarf from Japan, ropes from Portugal and carpets from Spain. The family business was considered as a business, which traded in every day-to-day usage products, ranging from ropes to undergarments. The first split in the business occurred when the eldest son left the business. The other brothers offered him half the share of the business, but still he parted to start his own business. In the year 1970, the second brother of the family owned business left. Thus, the father of the president and his sons joined to start the 003 group of companies. The president of the company and his three brothers were equal partners in the business. The eldest brother was running the business along with the father of the president. They expanded the business by setting up a branch in the eastern province of the country. They set up the business in the eastern province for logistic ease, to import sugar from U.K, which was sold in the local market. However, when the eldest son of 003-company group set up the branch in the eastern province, he faced stiff resistance and non-cooperation from the local traders. This prompted the founder father of 003-company group to depute his youngest son, the president of the company, who had returned after acquiring a degree in Business Management from U.K., to run the business at Al Khobar in the eastern province. This was how the 003 companies were established in the eastern province. The president of the company set up the whole company single-handed and diversified the company into many areas such as contracting and trading, interior decoration, optical manufacturing and air conditioning and escalator maintenance. He was the reason behind the success and growth of the company. He is presently running the business as the president of the group and his elder brother as the chairman.

7.5.2 Profile of the company

The company presently has two members of the family from the second generation and three from the third generation. The company has diversified businesses and each of the third generation members is in charge of a separate businesses. The total workforce of the group is about 300 employees and there is about 8 managerial staff. The organization structure is flat with the family members heading the individual portfolio of business and with an average staff of about 50 people working in each of the independent business. The group has only the family members working in it and it as owners and managers and does not have any distant relative working in it. When asked, the president informed that the policy of the company was not to hire any distant relative. The father of the president had told him to employ only the immediate family members and non-family managers. The distant relatives were helped monetarily when required but they were not given the jobs in the company.

The president has delegated power to all the family members of the business, who are managing various divisions and businesses of the company. However, the president finalises all the major decisions of the company after deliberations with the active family members in the business. Some of the departments like the accounting division do not have any family member heading it. Once the third generation suggested to the second generation, which is managing the company to delegate the power of finance manager to the family members, but they refused to do it. There is no established planning procedure in the company. Everyday in the morning the president has a meeting with other family members, who are active in the business and head various divisions of the company. In the meeting all, the matters pertaining to the business and to the family are discussed. The planning is done on a daily basis. In this meeting, any business plans or if there are any grievances among the family members, they are discussed and resolved. The other family members take the advice of the president on the business issues. The president of the company feels he has given complete autonomy to the other family members heading various divisions, to plan for their units but has put a condition that they consult him on all major business issues or policymaking. He feels some of the members have utilised the autonomy for their personal benefits hence he is careful in scrutinizing the business decisions.

There is no written company vision or mission document. The family also does not have any written vision or mission. There is no planned business planning procedure established. Everyday in the morning the family members meet once, discuss the day-to-day operations or plan for any business tenders they would be bidding for. Sometimes the non-family managers are also summoned to the meeting to take information or discuss certain business issues during the planning. The president agreed that the planning procedure in the company is haphazard and they did loose some of the major business projects due to lack of proper business planning. Most of the time in the meeting, matters related to cash flows and branch performance appraisal is done.

The family does not have any vision for the business. The second generation is emotionally attached particularly the president, as he feels the business is a vision of his father. Most of the time, the president confided that his priority is to keep family unity. He admitted that there are some differences among the cousins (fourth generation) and that it was affecting the business. Hence, his prime concern or the vision is to protect the family unity to run the business. He is keen to protect the family from a split. He keeps advising the next generation, which is being groomed to take over the business to maintain the unity of family and to keep up the good name and tradition of the family. The family has a strong reputation and good name in the eastern province. Presently there are some frictions and difference of opinions among the cousins of the third generation.

When the president of the company was asked to name a few factors, which are affecting the business operations of the industry, he named the following factors:

- Political- Royal family interference in the business markets, political policies of the government such as saudization.
- Economical- Less governmental spending, international oil prices.
- Social-Unemployment, half the population not educated and working, women not allowed to work. The president of the company is of the opinion that the women should be allowed to work, as women sales person are better for his business.
- Technology- Improved telecommunication has increased the business, Internet provision at competitive prices and less scrutiny of the business on the web.
- When asked to name a few factors, which affect his company in person, he named the following factors:
    - Cash flow problem. The partners in the business are not willing to put in more working capital.
    - There is increased competition in the market and companies are operating on big credits. Most of our money is blocked in credits.
    - Corruption among the governmental agencies to get business from them.
    - Saudization, as we are forced to pay more to a non-skilled Saudi compared to a skilled expatriate. This increases our operational costs.
    - The market reputations that the products sold at 003 companies are expensive.
    - High priced brands are sold in the showrooms.
    - Family fight among the cousins.

There is another group with the same name in the market, which belongs to his cousin and that group has a very bad reputation in the market.

Government regulations.

The president of the company feels the core strength of the company lies in the reputation of the family or the good name of the family in the eastern province, loyal employees, who have been working for the company for the past 50 years and the quality of the products they sell. He also feels they are successful in the market as they provide complete range of products and customer satisfaction. He feels the company is successful even if they have a reputation in the market as the company, which is expensive.

There is no organised planning in the company. The president of the company confided that the planning is done on a daily basis and the planning done is very haphazard. There are no long-term plans set for the company. The top management of the company, the board of the directors meet twice in a year to take stock of the company performance in the previous year of its operation and to distribute the profits among the shareholders of the family. The family meet and plan only when there are major tenders or business opportunities for which the company is bidding in the market. The non-family managers are not consulted during the business planning procedure. The company policies or the plans are formulated and conveyed to the departmental heads or the supervisors for policy or plans implementations. The president confided that the non-family managers are not happy with the planning procedure. They showed resistance towards the company plans during the implementation. The president informed that the third generation family managers were against the idea of involving the non-family members in the decision making process or during the business plans formulation. Because of this attitude, some of the non-family managers had earlier left the company. During the planning procedure occasionally information from the employees is collected and based on the feedback some of the planning is done. However, this procedure is not organised. The information gathering or the feedback from the employees is done informally. Mostly the president who regularly visits the company showrooms and collects information from the employees during the informal talks does this. The plans formulated are communicated to the departmental heads who are primarily the family members and other non-family managers to be implemented in the company. Targets are set to the departments for group performance appraisal of the employees and incentives in the form of percentage bonus on the sales are provided only to the departmental heads.

When asked about the role of family or the interference of family in the business decisions, the president informed that the non-active family members are not interested in the business operations and they are interested only in the profits of the company. Only the active family members in the business are involved in the business planning. However, on major business issues like expansion or retrenchment, all the family members who hold a share are consulted. The success of the plans implemented is gauged by the monthly reports on sale, and the performance of branches on certain parameters. The in charge person of sales report directly to the president. He also collects the daily sales report and he visits all the branches regularly. Most often, the plans of the company are short term, maximum to a period extending to a year.

On delegation of power and authority in the company, the president confided that he believed in delegating more power and authority to the non-family managers in the company, but the third generation family managers are strictly against it and there have been some arguments in the past between the third generation and the president on this issue. However, the president still believes in it and has delegated lots of authority and delegation of power in the company structure and confided that this delegation of power and authority is more for the family managers compared to the non-family managers. The president also confided that the non-family managers are more qualified and he trusts them more compared to the family managers. The planning done is for the entire group of companies and the plans are communicated to the SBU heads. The entire Sub's follow the same corporate policy but only the operations differ in the local markets. Only in the sales department, the sales team is consulted while setting the marketing plans and targets for the sales people.

On the personnel account, the president shares a very personal relationship with his employees. They respect him and some of the employees have been serving the group for more than 30 years now. In the month of Ramadan, the president invites all the employees to his house for a dinner once every year.

The president did agree that the planning procedure followed in the company was unprofessional and confided that some of the times they lost huge business due to improper planning and wrong judgment of market conditions. However, he also blames the failure of plans on the external conditions like improper debt recovery from the creditors and to some extent the problem of saudiazation, which has led the company to hire unskilled Saudi workforce in place of skilled expatriate workforce. This has led to increase operational cost and resource wastage. He feels saudiazation is a major factor affecting the business community in Saudi Arabia and he feels the policy is good but unplanned and wrongfully implemented by the state.

On his competitor analysis, the president confided that they monitor the following parameters of their competitors business:

- Furniture business- prices, models and services offered.
- Medical- latest equipment, Spare parts, Maintenance and prices of models.

The 003-company group sends its employees to the competitor show rooms and gathers information about the competitor products and services offered by them. The president trusts the non-family managers more than the family managers and he consults them more often during the planning procedure. He feels they have more ideas and are more hard working.

The president also agreed that there is an urgent need of establishing an organised strategic planning process in the company. He is of the opinion that the company made more profits during his time as there was little competition. In addition, he feels the business now is tough as the markets are constantly changing and the buying attitudes and behaviour of people has changed over a period of time. He feels there is an urgent need of a planning department in the company.

7.5.3 Profile of family

The second generation consist of 8 brothers. Among these 5 of them are in the family owned business as partners in the business. Among these 5 brothers, only two are actively participating in the business, the rest are non-active members. The sons of these two brothers are also shareholders in the family owned business. The eldest brother is the chairman of the company and the youngest brother is the president of the company. The entire administration and decision-making power rests with the president of the company. He also holds the major share in the company. He was also the reason for the company's growth and development. One of the brothers is working in the governmental agency and is only a shareholder in the company.

The third generation is being groomed to take control of the business. Presently all the children of the chairman and the president are employed in the business. The president has only one son and the chairman has three sons. All the family members live as nuclear families. The second and the third generation are emotionally attached to the business. The president feels that the business exist for the sake of family and it is meant to fulfil the needs of the family. The president informed that all the members were given the freedom to plan their own career. In addition, all the third generation children showed keen interest in the family owned business. They were groomed in various specializations such that they can take control of the company. One of the third generation members was groomed in the field of Bio medical engineering such that he would take care of the medical equipment division of the company. One was trained in industrial and factory management who is taking care of the carpet factory of the company. The other sons have been given formal education in business management and commerce. The son of the president has been trained in the business management studies. The second generation has a vision of unity in the family, which they feel can make the business stronger. However, there are some frictions and difference of opinion among the cousins, which has led to some conflicts and holds a potential for a conflict of power.

7.5.4 Problem areas and some potential conflicts

There has been no major conflict in the family, which threatens a major split in the business. During the interview sessions, the president did confide some major latent conflicts, which if not controlled can cause a major split in the business. The president also knows that the conflicts among the cousins if not controlled can lead to problems in future. Some of the identified problem areas in the company are as follows.

The president has only one son and he has groomed him to take over the company. The president also feels that he has worked hard to build the business and since he also holds the major share in the company, his son should be allowed to succeed him as the owner of the company. However, the elder brother of the president who is also the chairman has three sons and he is also grooming them to take over the company. In addition, as per the Islamic law, the eldest son should inherit the business as the chairman did after the death of his father. This issue is not discussed openly among the family members, but the struggle for power has led to some difference of opinion among the cousins. The president has identified this problem but does not have a solution for this.

The president feels earlier his elder brother was not involving in the decision making process of the company. He was only a deputy chairman and the president who is the younger brother was running the business. Now the president feels his brother is taking more interest and interfering in the business on the insistence of his sons.

Though there is a simmering difference of opinion among the cousins, there has never been a major showdown or neither conflict nor the cousins have misbehaved with any of the uncles as all of them respect the family culture of respecting the father and uncle.

The president confided that he and his brother wanted the business to be run as a single unit or enterprise. He wanted to consolidate the business divisions as one to gain market share. However, the third generation is against the idea, as they want separate businesses for more power and authority.

There is no family constitution or a machinery to resolve the family conflicts. The president confided he wanted to establish a family constitution and family council to resolve the family conflicts and safeguard the interest of his only son whom he wants to succeed the company after him.

The president does not want to retire as he feels he is very attached to his business and he does not want to sit idle at home. He is worried about the future of his son in the company. His wife is also of the same opinion that he should not retire in the near future. During a conflict, the family discusses it in the family and the business meeting, which they conduct every day morning. In this meeting, the two brothers of the second generation discuss the problem of conflict with their sons and resolve it. However, there has not been any major conflict in the past, which has threatened the survival of the business. He also informed that among the cousins they support each other and encourage each other when they undertake new projects or businesses. The president feels there have been little major conflicts as every third generation member is having an independent job and division of the business to take care. The president is not worried about the wealth aspect also as all the members have individually owned properties.

The president feels there is an urgent need of a family constitution to guide the behaviour and interpersonal relationships among the family members of third generation and there is an urgent need of a family council to resolve the conflicts.

7.5.5 Personal analysis

The president of the company took over the company at a very young age, in spite of being the youngest in the family. His father had helped him in picking up some of the trade tricks. He had sent him to UK for higher education in business and all the other brothers were comfortable with his style of management functioning. His elder brother is functioning as a dummy chairman of the company and he had been planning and developing the business on his own. The elder brother never interfered in the business. The president confided that he never aspired for more wealth or money from the company in spite of working more for the company. He never took any extra remuneration for taking care of the administration of the company. He felt the company belonged to the family and it was meant to fulfil for the family needs.

He feels on the contrary that it is difficult to handle the family members, as they are more concerned about their profit share. He also feels the non-family members in the company are more talented and they should be given more power and authority as they have better business ideas. However, he is not in a position to convince the other family members about it. He also feels the third generation is not very keen to develop personally and learn more about the various management methods to run the business group. He also feels his decision-making ability in the business is influenced by the family and he is not very happy about it. He is also of the opinion that the family members should work outside the family business to gain some experience and then join the family business. He also feels at least one of the family member should be in a governmental job, as it helps in growth of the company. He cites the example of zamia group, in which one of the family members served as a high-ranking official in the government and was supposed to be responsible in getting governmental contracts to his company.

The president is also worried about the future of his son as he feels the sons of his elder brother are more demanding and are looking for more power and authority in the company. He also feels there is a simmering discontent and difference of opinion among the cousins, which is a threat to the business. He also feels he is not having a free hand now to run the business as before as his brother is more interfering in the company. He urgently feels the necessity to have a family council and family constitution to govern the behaviour of the family members in the company and urgently plan for the strategic planning process in the company, as he feels the company will not survive the onslaught of globalisation, increased competition, changing consumer attitudes in the near future. He is of the opinion that the company needs a consultant an expert in the family business. He feels the family is most important and the unity of the family has to be maintained for the success of the family owned businesses.

7.5.6 Pre-model implementation assessment score

The analysis of the firm indicates that it fares poorly on the strategic planning process and family unity and participation in the business. The model was implemented by the following methods:

A family meeting was organised, which was attended by all the active and non-active members of the family business. The meeting started with a small lecture on the importance of family businesses, its role in the economy of a nation and the major success factors that govern the family business. Many of the family members liked the subject and had many queries regarding the role of family constitution, Mission statement and a unified vision of the family and business. There were some tough questions on the succession planning too. End of the presentation and lecture, the family members unanimously decided to implement the recommended changes in the business and give a new look.

A family meeting away from the business location was fixed, which was attended only by the active members and major shareholders of the business attended. A family constitution draft was formulated. The main area of disagreement among the members was the issue of succession planning. Both the president and the chairmen were aging and planned that their children take over the business. According the culture of the family, the chairmen felt his son should succeed the business, even if the president was instrumental in its success. Finally, an agreement was reached that the family values and tradition will be respected and the eldest son of the chairman will succeed as the chairman and the president's son will succeed as the president of the company and both will have equal voting rights in the board. The other members and shareholders had equal shares on the board. A family constitution was drafted with the duties and obligation of both the president and the chairman. The rules of insolvency, business windup, policy decision-making, new ventures and profit sharing were formulated in the business. A family council was formed with the chairman, the eldest member of the family being as the chairperson of the council.

In another sitting a critical analysis of the business performance was conducted, an internal appraisal was carried out and all the participating members formed a Mission statement. A business consultant helped in the formulation of the Mission statement and in conducting a portfolio analysis. It was decided that the firm would diversify into few new business such as Iron and steel and sell some of the non-performing business, close down a few non-performing show rooms in various parts of the kingdom. A new corporate policy was formulated, the new management team, which consisted of the family members, was given more authority and responsibility to perform. The business was divided in various sectors and planning & scientific forecasting methods were planned to be implemented. A quality culture was planned in the firm. Increased communication and coordination among the family members working for the firm was planned. A restructuring of the firm was planned. Newly inducted members were sent for training in professional institutes and organization wide change was planned. Weekly meets to hear the employee suggestions and grievances was planned.

Six months after the model was implemented, a second analysis was conducted and the results are described below:

7.5.7 Post-model implementation assessment score

Calculated assessment scores are shown diagrammatically in Figures 7.5 and 7.6. Post implementation the firm was analysed and the results indicate that the firm has an organised approach to strategic planning and there is greater unity and cohesiveness in the family. The family could avert a major conflict and split in the business, as the model suggested greater unity and a family constitution to guide the family and prevent conflicts. The model helped in generating higher affiliation and commitment of the members towards the business. The model was successful in the integration of family and business entities and adopts a unified approach to the strategic planning process.

Figure-7-5. Business Assessment for Case Study No. 3

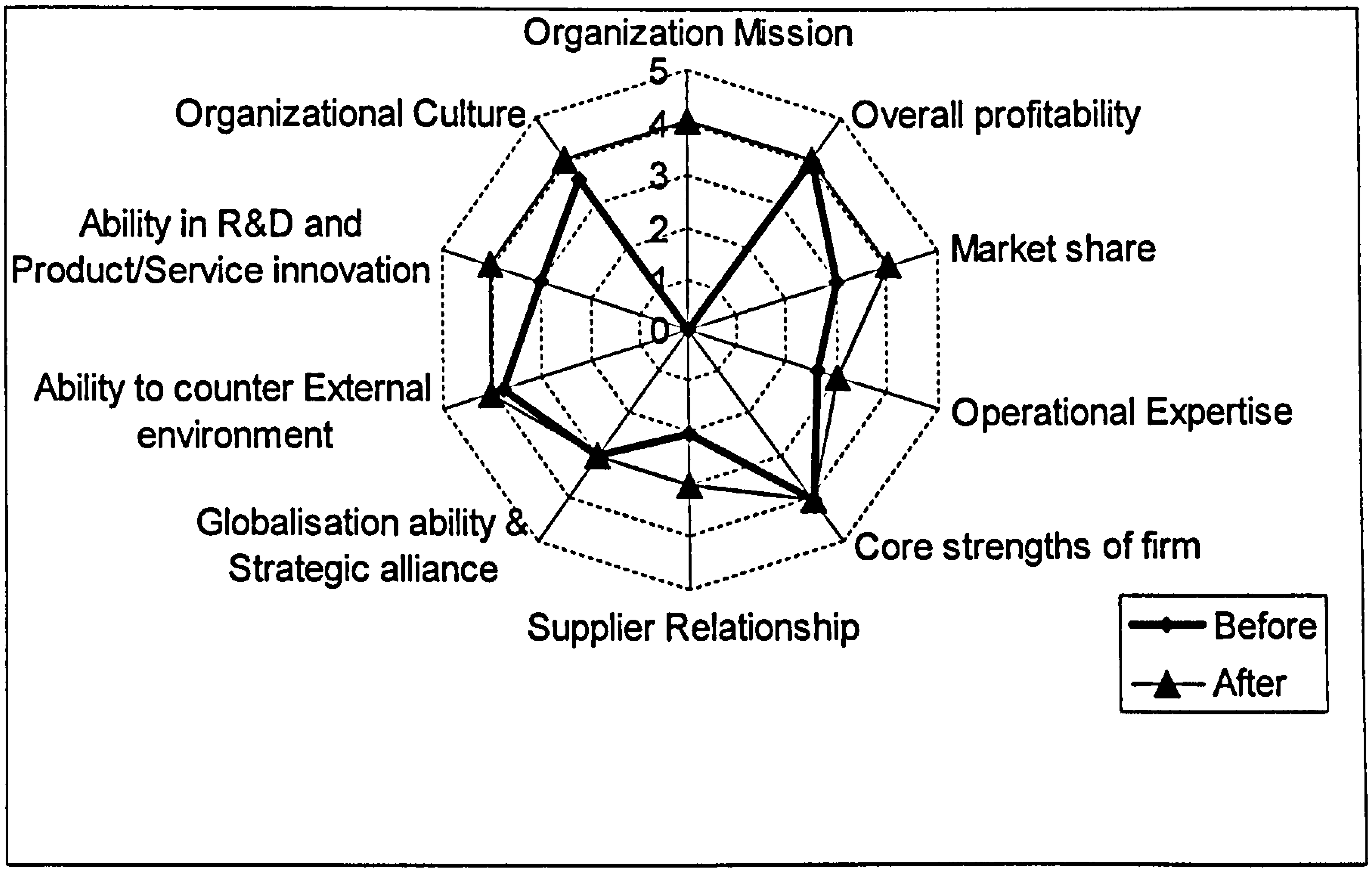
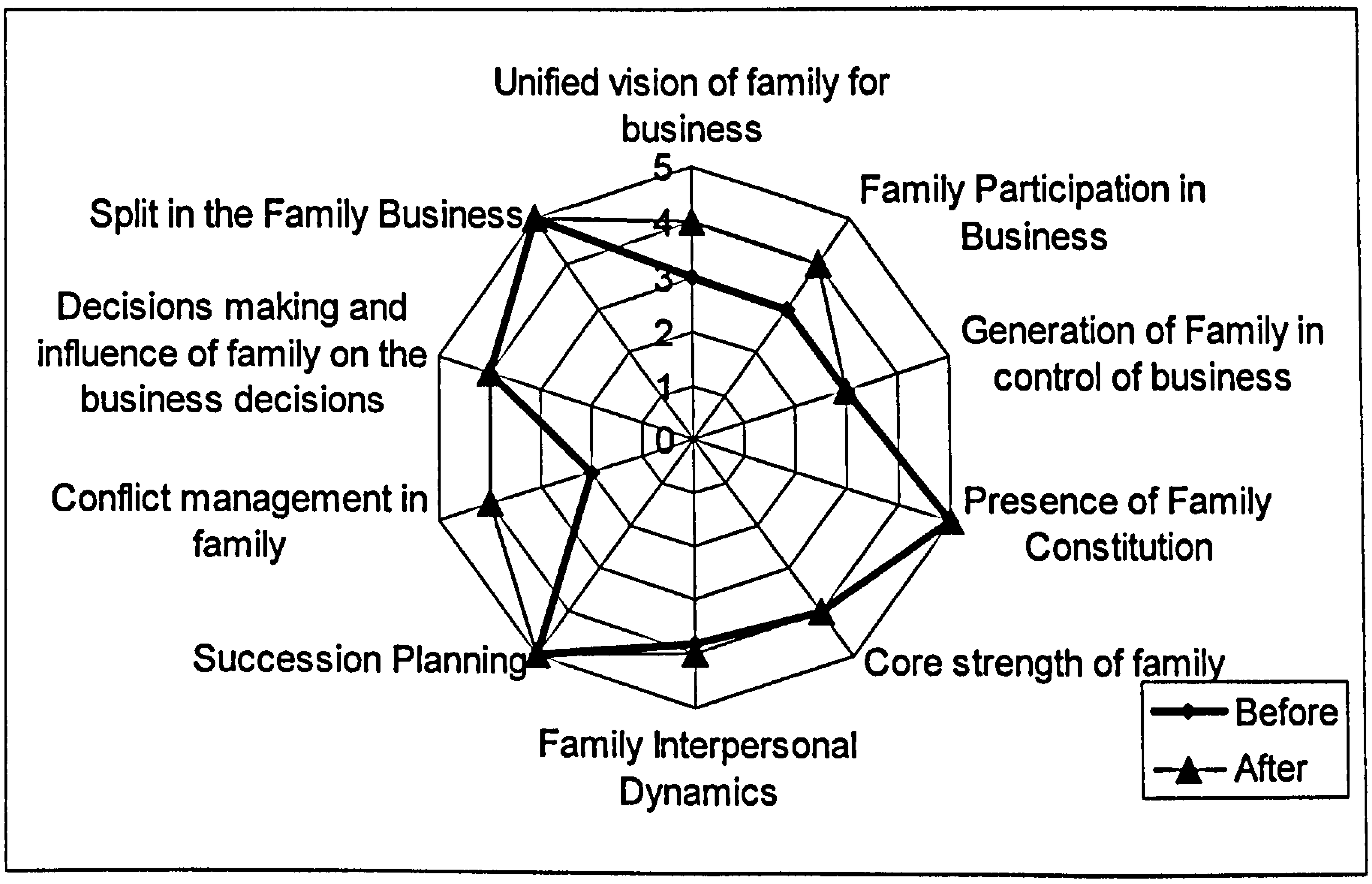


Figure 7-6. Family Assessment for Case Study No. 3



7.6 Case Study No. 4

The 004 company is one of the largest trading companies located in the eastern province of Saudi Arabia. The company is a leading distributor of many products in the area of electrical and communication division, instrumentation and control division, Industrial and oil field. It is a distributor for more then 40 multinational brands in these products. The company has is branches all over Saudi Arabia. It is a family own business with the second generation working along with the founder member. The unique feature of this family business is power sharing between the brothers of second generation, unlike the trend of eldest son heading the business. The interview during the study was conducted with one of the directors of the company who is a second-generation member and the eldest son of the family.

7.6.1 Business analysis

The company was started in 1974 by the founder member and his two sons. The capital investment at the time of commencement of business was One Million Saudi Riyals. Family has four members including the founder member. Presently three of the son's are working with the founder member in the family business. Since the time of inception, the company has been operating in the same product line and as a regional company. All the family members head the functional departments. The company has about 12 non-family members working as the managers of various functional departments and divisions. The company has well organised business-planning system. The top management is aware of the strategic planning procedure and has well organised strategic planning methodology established in the company. The strategic planning for the entire group and the SBU's is carried out every year. Apart from this, the annual plans and half-yearly plans are regularly carried out and the results frequently analysed. The top management carries out the planning collectively, which consists of family members who are active in the family business and the functional departmental heads who are non-family members. The company has its operations divided in three divisions, one of electrical, the other is the instrumentation and the third is the oil and gas exploration. The three brothers of the second generation are independently handling each of these divisions and the founder member is the chairman of the group. Apart from the annual plans and the half-yearly plans, ad hoc plans are conducted in case of sudden and unforeseen changes in the business environment. The focus of the strategic plans is on the customer satisfaction in the entire field of the business operations and in improvement of business process including development of human resource. The non-family managers of the company are highly qualified management experts and have a long experience in similar line of business. They have been carefully screened and picked up by the company.

The company has a Mission statement, which is as follows "The mission is to meet the clients' needs accurately, correctly first time, every time at the right place, and in the required time. Also to carry out work which is consistently satisfies the requirements of our clients". The family members, who are active in the business and the non-family managers working in the company, formulated this mission statement. The family has a vision for the business and this vision was set by the founder member. The second-generation family members are also committed to this family vision. The family is very emotionally attached to the business, but at the same time is very clear in their focus towards the business. The family members consider the business as a major source of their income and are very clear in their approach toward their business. They do not want to mix the family interest with that of the business. They feel it is their major source of income hence they feel it is very important to keep the family influence out of it. All the business decisions are taken in light of the business opportunities and the family interest is kept out of the business. The entire strategic planning and the conducting of business operations is carried out by the professional managers of the company and the family members fully participate in them as business owners and keep the family interest out of it. There is a performance appraisal for the family members working in the business, along with the non-family managers. There is complete autonomy and decision-making authority to the non-family managers, but at the same time there is accountability for their actions. The chairman supervises and closely monitors the family and non-family managers equally. Comparatively the family managers who head the individual divisions of the company are given more responsibility and decision making authority.

The eldest son of the company, who is heading one of the divisions, is well informed on all the business matters. During the course of interview when asked to identify a few factors that can influence his company and the factors in the external environment that the management watches closely during the strategic planning exercise, he identified the following points:

- Political- Govt. Regulations on imports and technology use. The ever-changing industrial and trade policies of the government. The labour regulations.
- Social- Lack of professional education in the Saudi youth, growing unemployment and saudization program of the government.
- Economical- the changing oil prices, which affect the economy of the country.
- Technology- The changing technology has the maximum impact on the business of the company, as the technology changes, they have to bring in more agencies and products as the business is depended on the sale of technology products. The director informed that the changing new technologies could badly affect their business and they keep track of them by continuous research of the recent developments in technology, with the aid of modern technology and communication methods.

The director explained that the company follows carefully selected parameters of their competitor business while formulating their strategies. These include the prices of the competitors and the technology involved in their products, Customer service improvement of the competitor and their Strategic alliances. He informed that the competition in the business is very fierce and technology oriented.

When asked to identify the core strength of the company, he informed that the employee's participation in the constant improvement of the business to achieve customer satisfaction was the core strength of the company. He believed the company employees and the management as a singe unit or team, which is responsible for the success of the company. He feels the employee participation in the strategic planning process is very important and it is carried out in the company. He also feels that the employee participation in the business operations, not only motivates the employees but also helps in implementing the strategic plans easily. He informed that the plans set by the company are based on the employee feedback and hence have never faced resistance to the change. The company also offers various forms of financial and non-financial incentives to its employees. The employees feed back and their participation in the business operations is carried out by head of various departments, by means of weekly meetings between the heads of the departments and the employees.

The strategic plans formulated are communicated to the departmental heads, who in turn communicate them to the employees. In some cases some of the employees who have a vital role in a particular department are directly communicated the plans by the management. The company has recently acquired the ISO certification, which helps in checking the plans regularly and that they are being successfully implemented. The ISO also helps the company in meeting the international standards for the quality management systems. The director of the company confided that the planning process in the company is a continuous process and new plans are formulated to adapt to the changes in the technology and the market trends.

All the Strategic Business Units (SBU) of the company follow the same strategic plan set by the company. However, if the need requires, they modify the plans to fit the local business needs. The policy structure is the same for all the SBU'S. The company had also implemented the information technology in a large scale in the business operations, to save cost and to improve the customer service by the company.

The company is now planning to diversify into another area of business, which deals with the sale of computers as hardware, software and networking as a major distributor of world leading brands.

The director informed that the company has been very successful due to the professional planning conducted by the non-family managers, who are given a free hand in the formulation of strategic plans for the company and keeping the family interest out of the business interest.

7.6.2 Family analysis

The family business consists of the founder member and the three sons. The founder started the business with his two sons initially and later the third son joined the business. All the family members stay as a nuclear family. Only the immediate family members are working in the family business. There are no distant relatives or the cousins employed in it. All the immediate family members were groomed by the founder member to work for the family business. The business was frequently discussed in the family and the second generations were told that the business is their future career. The founder member was instrumental in developing a deep sense of responsibility for the business among the family members. He has the opinion that the family and business are two separate entities and that they have to be managed separately. The children carry this same vision. In case of clash of interest of family and business, they have discussed over the matter and found a middle path, which would benefit both the family and the business. However, in true spirit the family feels the business is very important and has to be managed separately in a professional manner. All the family members share the common vision for the business. The chairman groomed all his children to join the family business. He fully delegated all the power and responsibility to his children. He fully encouraged all his children to join the family business.

All the sons equally own the business. The routine pattern and the social custom in the family business of Saudi Arabia, is the eldest son heading the family business. However, at 004 company, the business has been divided into three major divisions of operations and each of the sons is in independent control of his division. The chairman of the group is the founder father. The concept of managing business in the company is of power sharing between the brothers of second generation. Presently all the three brothers are managing the various divisions of the company and the founding father is still involved in the business as a person who is closely supervising the business. There is no retirement plan of the founder member. Because of the power sharing system, there has never been a struggle for the power among the brothers and there were no succession problems. However, the company still does not have a written family constitution, which makes this aspect of power sharing a company policy. However, all the brothers share a very good relationship. There have never been any major family conflicts, which could threaten a split in the business, as the sons had their independent charge of divisions. The director confided that every member in the family is explained about the rules of the business and the expected behaviour of the member as a team member of the business. The family members have been groomed to enter the family business only and were not given the choice of selecting their own career.

There is no grievance handling mechanism in the family to handle the conflicts if they arise. The family members mediate and resolve the conflicts amicably among them. In case the conflict is severe, the father would intervene and resolve the conflict. So far, there has been no major conflict, where in the father had to intervene to resolve the conflict. Apart from these measures, the family members meet regularly to discuss the matters of business and to resolve any difference of opinion among the family members, regularly once in a month.

The non-family members, the brothers and the founder father train the family members when they join the business. In addition, in all the decisions of the business, all the active family members are consulted and a collective decision is taken.

7.6.3 Personal analysis

The present case study analysis was conducted as an interview with the eldest son of the family, who is one of the directors in the family owned business. He informed that he joined the business as the founder father motivated him and as a responsibility as the eldest son of the family to keep up the family business. He was constantly told about the family business by the father and was personally trained by him to run the business. Presently all the brothers share a power sharing in running the business. He described his relationship with the father as very cordial during the learning phase and the relationship with his younger brothers as a shared respect one. He feels both the family and business are important aspects and a balance has to be achieved in managing both. He feels comfortable in managing both and had no problems at all. He gives the credit to his father who gave the vision that the business and family are two separate entities to be managed separately. This he feels helps in planning for the business very easy. He feels the family should be kept out of the business planning and the business plans are to be formulated in a professional way. He considers the family as only a guiding force or a support for the business and does not want it to be a part of the business. This he feels will curb the potential of the family business.

He also justifies the power sharing mechanism between the brothers. Though he is the eldest son, he still feels the power sharing mechanism is justified as it reduces competition and conflicts among the brothers. He also feels the family members should be considered for the employment only if they are employed and have the interest in it. Otherwise, the best choice would be non-family managers. He feels the family has little role to play in the business other than providing the support and guidance. In addition, he strongly feels that the family should be kept out of the business plans and business decisions. He confided that all his decisions are mainly business decisions and the family does not affect his decision-making ability, as it does not influence him.

He also feels that if the family members are interested in the family owned business, they should work for the same business and should not split the family business, as it would weaken the family business. He also feels that every member in the family should be given the choice to select his career option either in the family business or outside it. He is also grooming his children to join the family business and he is keen that they make a career in the same family business. He is also providing them the professional qualifications to run the family owned business.

In the given globalisation scenario, he feels the family businesses are more adaptable to the changes in the external environment as they work in close cohesion group. He foresees a good future of family business in the near future in spite of globalisation and entry of many multinationals in the market as a competition.

His future plans are to groom his children to join the family business and develop an interest in them towards it. At the same time, he would like to implement E-Commerce in the company to reduce cost, and for better customer services.

7.6.4 Pre-model implementation assessment score

Calculated assessment scores are shown diagrammatically in Figures 7.8 and 7.9. The assessment of the firm indicates that the firm is more business oriented. It has well-established business planning systems, a coordinated management team, a quality protocols and organised business assessment systems. This has helped the family business grow on the business dimension, but does not have a high family participation in the business, no organised family constitution or family councils and neither a conflict handling mechanism established.

The proposed model was established in the following manner:

A family meet was organised and all the family members both working for the business and who were planning in near future to be a part of the business were invited to the meeting. At the onset of the meeting, the members were given a brief talk on the importance of family participation and commitment for the family owned business.

The results of the study were discussed with the family members. Each of the family members was asked to speak about what he expected from the business and what shortfalls he felt in the business according to his discussion. The family members were encouraged to speak openly about their grievances and any other unresolved matters in the meeting. They were also asked to suggest measures of family participation in the business and the responsibilities of each member in the business.

The family members were explained the benefits of a family constitution and family councils. Majority of the family members including the owner founder agreed to the suggestion. The help of a leading family business consultant was sleeked and a family constitution was drafted, with features of profit sharing, succession planning, rules of business entry and exit and rules of retirement were formulated. A family council with the founder member of the business as chairperson was formed, the frequency and code of conduct of such a family council was drafted.

The model was implemented and an assessment of the business was conducted after 8 months.

7.6.5 Post-model implementation assessment score

Post implementation of the model, the family has equal importance for the family and business. Earlier the family had more preference for the business needs compared to family needs and the family participation was purely to grow the business, each member of little freedom to plan his career either inside or outside the family business. The model helped the family business in achieving a balance between the two entities and developing more interaction among the family members and to have a unified commitment towards the business.

Figure 7-7. Business Assessment for Case Study No. 4

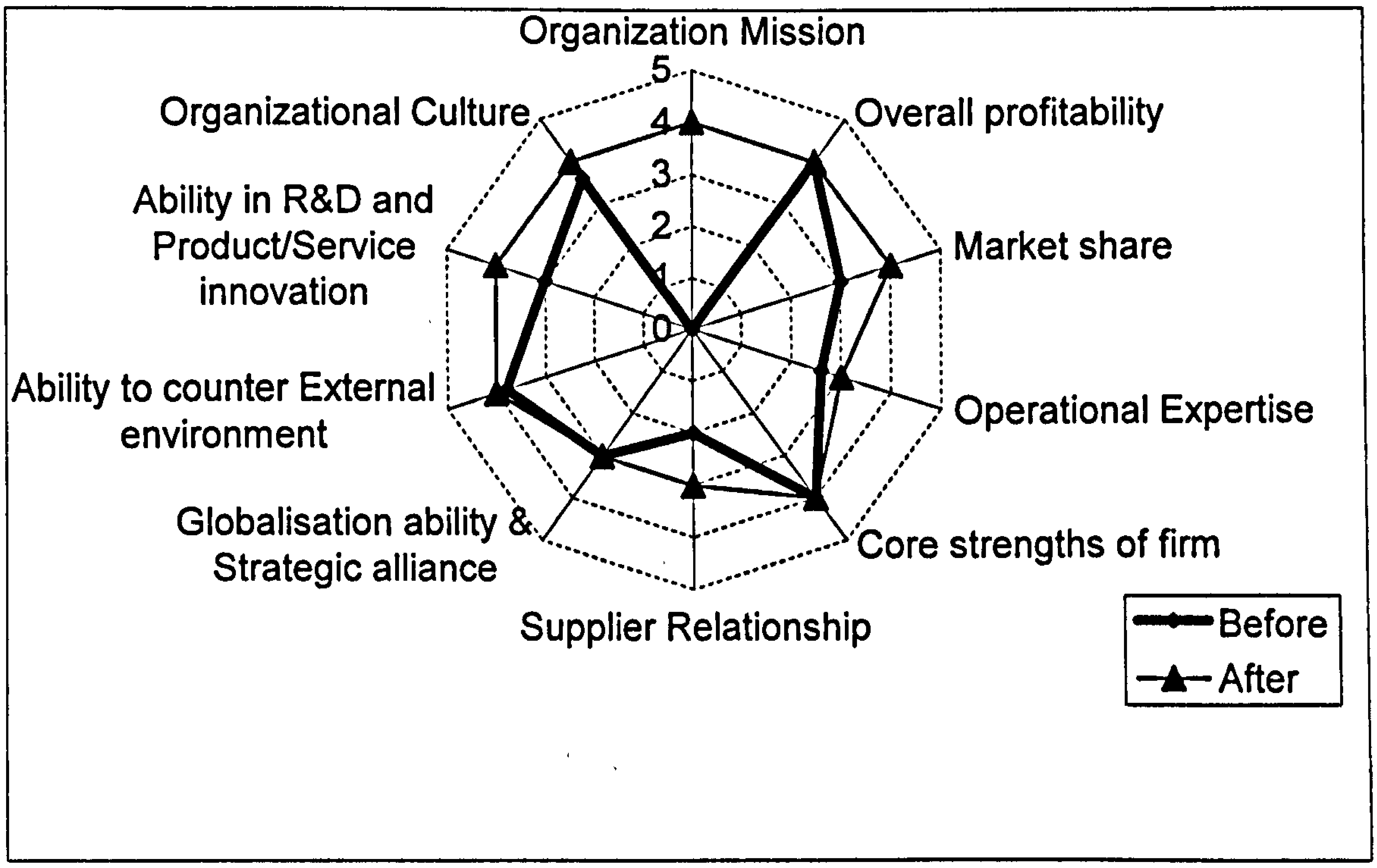
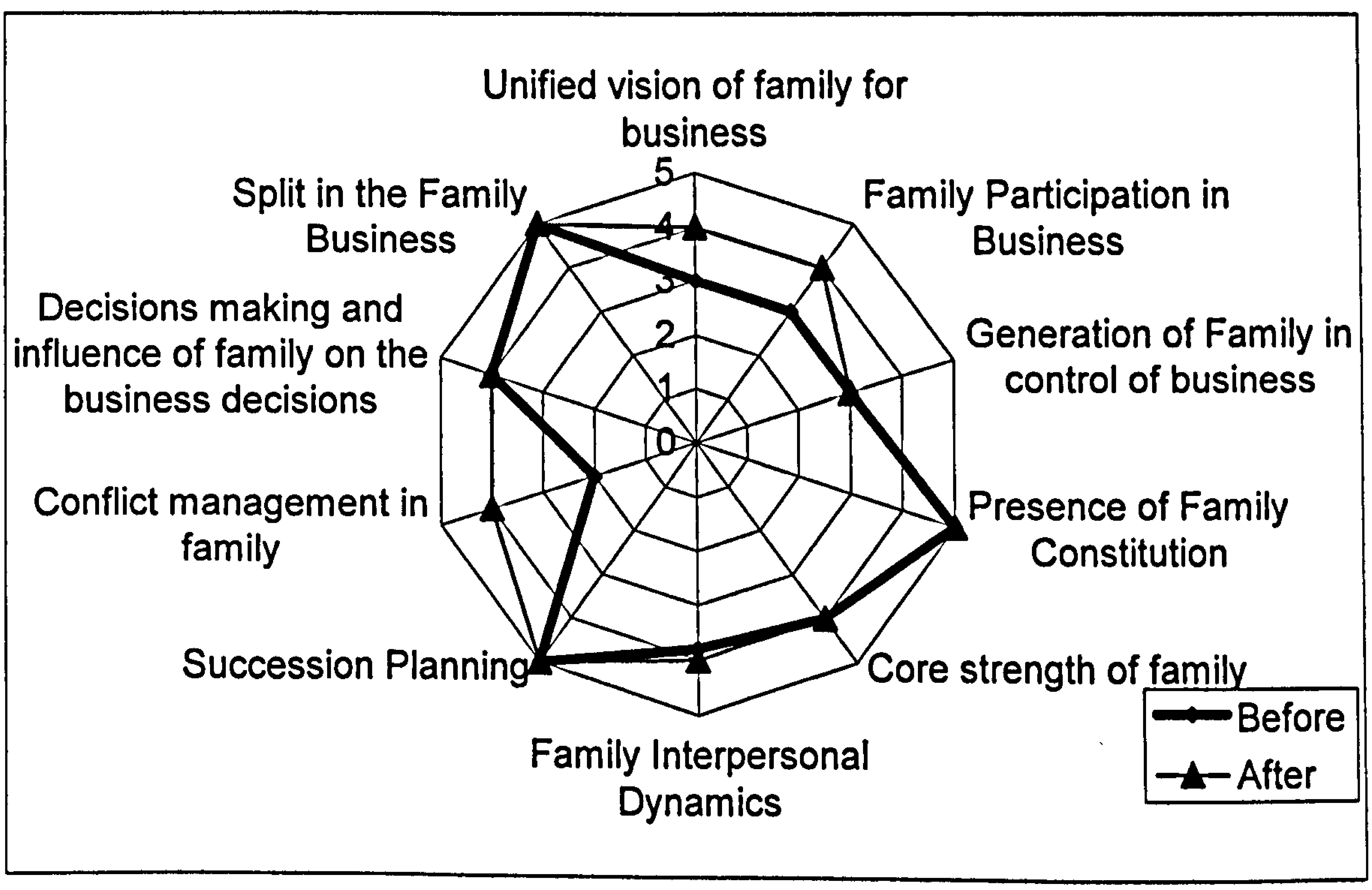


Figure 7-8. Family Assessment for Case Study No. 4



7.7 Case Study No. 5

The company 005 companies are one of the leading industrial houses of Saudi Arabia and they have their business in steel fabrication, real estate, travel agency and investment in stock exchange. The business is a family business, with the second generation in command of the company and the third is being groomed to take control of the business. This group was selected for the study, as the second generation is a cousin consortium, taking care of the company. The family business has also number of conflicts and survived a near split in the business.

The grand father of the present owner who is the chairman of the company started the family business in the year 1950. Along with the grandfather, his two sons also joined him in the business. The company initially started the business in the real estate and construction business and slowly diversified into steel fabrication, travel, tourism, and investments in share market. The company presently has six family members working for it. The interview during the study was conducted with the chairman of the company, who is the second-generation member of the family business.

7.7.1 Profile of the Company

The company has six family members working for it, which consist of cousins of the chairman and their children. All of them head one or the other functional departments. There are also 10 other non-family managers, who are not even a distant relative of the family members. They are all expatriate community working as employees. They have purely been selected for the job based on their qualification and experience. The company does not have any organised planning procedure. The chairman and the other family members do not know even the term of Strategic planning. The planning in the company is highly disorganised and is taken up only when the need arises to bid for a contract or to send a quotation for a job work. There is no coordination among the staff of the company as there are family conflicts between the cousins managing the company. The chairman has complete and centralised authority over the company. There is no delegation of power and authority to the family as well as the non-family managers. There was a deep sense of frustration among the non-family managers, when we spoke to them about the planning procedure in the company. They reported that there is no organised planning method in the company and business is done on a day-to-day basis mainly due to the conflict of interest between the partners, who are the cousin consortium. The chairman has strict control and decision-making authority on all matters, as he owns more than 25% of the company stocks. When asked about the planning procedure with the chairman, he reported that there is no organised or planned planning method and he does not believe in long plans of a year and believes only in short plans on project basis, which the company takes up. He accepted that the decision-making procedure was centralised in the company but at the same time defended him that he allocates operational autonomy to the functional managers and the family members.

There is no mission or vision statement defined for the company. The total family members are about 13, but only six of them are active members. They do not have any vision for the company nor are they interested in the future of the company. When asked about the importance of business for the family, the chairman replied that the business exists for the family and he had mixed feeling and ideas about the importance of business to the family. He believed the business is the bread and butter of the family and at the same time, it was the dream and vision of the grandfather and father of the family business. The chairman informed that the company was a local company and operated within the boundaries of Saudi Arabia. At times, it did business in the Gulf countries, but he believed the company was a local company and not a global one.

When asked to name a few factors in the environment, which affect the company, the chairman named the political condition and the economy as the two major factors in the Saudi which affecting all the industries. Apart from this, he also feels the demand and supply factors of the product affect the company. The chairman does not have much idea about the planning process, the method of carrying it out in the firms and the importance of it. He could not name any of the factors in the external market, which affect his company. He believes in instant planning and believes that the planning is done on a project basis. He agreed that by this method the company had lost many a major business orders. However, he blames the family conflicts between the cousins as the reason for lack of coordination and cooperation among the managers of the company and non-existence of planning in the company.

When asked to define the reasons for the success of the company in spite of lack of planning in the company, he stated the following reasons:

- Quality of workmanship in the products.
- Diversification.
- Quality assurance to the customer
- Good reputation of the family name.

He felt the company was having core strength of skilled workforce, producing quality products, which was making the company successful in the market. When asked to define the regular planning method followed in the company, he stated that the planning is done as the need arises. In the planning process, sometimes the middle level managers are consulted otherwise routinely the active family members do the planning for the company. The plans are then communicated to the departmental heads for the implementation. He reported that there has never been any resistance towards the plans communicated. The company does not have any incentives for the staff. He also stated that most often, he does the planning for the company individually and he does not involve the family members. He plans on the project basis. He also agreed that the plans are always not in tune with the family needs and ideas. To check the plans success, the chairman conducts periodic check of the results after the plans are implemented. He agreed that the planning and authority are highly centralised with him. He feels a limited authority so as to enable an employee to accomplish his work is sufficient in a firm. However, he did agree that comparatively the family members enjoy more authority compared to the non-family members. The chairman could not answer what factors in their competitors the company constantly monitors. When questioned, given a choice whom he would frequently consult during the planning process, he answered he would trust the non-family members more hence he would consult them more during the planning procedure.

7.7.2 Family analysis

The family consist of 13 members. Out of these, only six are active members in the family business. The chairman of the company is the eldest son and hence he inherited the business after the demise of his father. He owns more than 25% of the company shares. The second generation is in command of the company and it consists of cousin consortium. All the family members are living as nuclear families. On the birth of the chairman, his grandfather had transferred some of the company shares on his name. Later he took over the control of the company after the death of his father, grandfather and uncle. Being the eldest son, he inherited the business. He was groomed by his father to take control of the family business. His succession in the business was very smooth without any problem. However, presently there are conflicts between the cousin consortium and their children who are the shareholders in the family business. Only six members of the family are working in the family business and the others are working outside the family business. These family members are not considered during the decision-making or the planning of family business. All the family members are not very attached to the business and mostly see it as a source of income.

The chairman confided that every member of the family has the freedom to decide his future career. He himself does not want his children to enter the family business and is planning a separate business for them. He at the same times believe that the business exist for the sake of family needs. He believes the business expanded mainly due to his hard work and feels the main draw back he has is the family conflicts between the cousins.

The family had a major conflict, which almost had a split in the business but was averted by the intervention of the chairman and the issues were sorted out safely. A help of legal consultant and a professional manager was taken to decide the division of profits and the business shares among the family members. There is no council or established mechanism to resolve the family disputes. The third generation is not given any formal training to take over the company. They have just been made the shareholders in the company. Each of the family members is separately planning for his children. There are no established rules for the family members to enter the business and at the same time, there is no performance appraisal of the family members working in the business. The chairman reported that business is frequently discussed in the family gatherings and it was done during the time of his father and grandfather. He was groomed by the father and grandfather to take over the business.

The chairman reported that while he joined the family business, things were much more strict and regularised. The entire planning and decision making system was completely centralised in the hands of his father and grandfather. He took over the company after the death of his father, uncle and grandfather, as he was the eldest son in the family and as per the Islamic tradition; he took over the company, as he was the eldest son. There were no conflicts during the succession and it was smooth. He confided that the family did not explain to him the kind of behaviour and the rules he has to follow once after entering the family businesses and he feels it as a disadvantage. The other disadvantage he feels is that there is no written family constitution or rules for the family. There are no established methods or councils to resolve conflicts. He also feels the way the shares are distributed among the members of the family is not fairly organised. He confided that the family members are in no way trained for the job before. He also felt very uncomfortable at the time he joined business as he faced some resistance from the managers, who were working for his father and grandfather.

Not all the family members share a common view and plans for the company. There is little cooperation among the family members. The chairman is planning to sell away some of the business operations to individual members, such that they become independent family businesses. The family does not share a common vision for the company.

7.7.3 Personal analysis

The chairman who took over the business, as he was the eldest son of the family is not very happy with the family and the method of doing business. He feels the lack of unity among the members of the family is a major disadvantage he is facing. He has been mixed ideas about the present family business. He feels it is bread and butter of the family and at the same time feels it is a family identity. He describes his relationship with his brothers and cousins working in the company as fair and not very cordial. He feels it is difficult to balance the importance of business to the family and the family for the business. He reported that he is under extreme duress due to the family conflicts and feels he is not able to plan properly for the business as the conflicts are seen as a constrain. He justifies his method of succession and feels the law of eldest son inheriting the business is right. He perceives himself as the person who was responsible for the development and diversification of the company and at the same time is hurt due to the family conflicts. He does not want his children to enter the family business and is planning separately for them. He is planning of establishing separate business for them.

Given a choice, he feels he would take mostly non-family members in the business as he feels it gives him the flexibility to work as per his plans. He also feels the non-family members are more loyal. He justifies himself that he does not give much authority and responsibility to the family members, as he cannot trust them.

He feels family can play a major role in the development of family business if there is a unity of command, and feelings brother hood among the members of the family. He feels due to the family members working in the business he has limitations in decision making for the business. He feels that during the strategic planning for the company, the family should not be given much importance. He feels more importance should be given for the business. He is of the opinion that for making more profits in the family business, one should hire professionals to run the business and the family should only collect the profits. The day-to-day operations and planning of the company should be given to the professional members of management.

According to him in his family business, the business goals and the family goals are not properly aligned. In addition, he feels the conflicts in the family are the major forces destroying the fabric of support in the business. He is of the opinion and is planning to sell individual businesses in the family business to the individual members of the family, such that they become individual family businesses or as the nuclear family businesses of the parent family business. He feels this would reduce the conflicts and interference of the other family members in his business.

At the end of the interview, the chairman said he realised the importance of strategic planning in the family business and wanted to plan seriously of implementing it in his company by hiring professionals to do it. He also planned to introduce the concept of family councils to reduce the family conflicts.

7.7.4 Pre-model implementation assessment score

The analysis of the case indicates that the firm has extremely poor method of business planning and at the same time has very difficult family management due to frequent conflicts in the family. It is a typical case of family business that is loosing due to inherent conflicts in the family, poor family commitment for the business and very poor management due to centralised command in one owner. The model was implemented in the current case study by the following mechanism:

A family meeting was called, which was addressed by a family business consultant. He had separate meetings with every active and non-active member of the family in business. He latter addressed a complete family gathering and explained them the contribution of family towards the business and the success stories of family businesses that had family commitment to the business. He conducted a few exercises, where he encouraged the family members to participate and develop a sense of togetherness and unity among the members. He explained the advantages of a unified family vision for the business.

He encouraged members to speak openly in the gathering to present their opinion about the continuity of family in the business, its role and their expectations from the business. The family members spoke about the grievances and other opinions they hold about the business. This helped in identifying the underlying conflict causes, which were not explicit.

Such family sessions were held consecutively on three-week ends. In the last session, the members agreed upon the importance of having a unified family approach towards the business and the importance of having a written and documented family constitution and responsibilities of family members involved actively in the family business.

A family constitution was drafted, with the help of the family business consultant and all the members of the family attested it. The constitution consisted of rules regarding profit sharing, succession planning, distribution of shares among the family and conflict resolving methods. As the family was a cousin consortium, they decided to have a family council, with the family business consultant as the moderator to oversee the smooth functioning of the family business. The succession planning was based on power sharing principle between the cousins. Such that the son of highest shareholder of the family would succeed, the business and the other members would be elected by the family council to represent the family on the board. The board members would have a fixed term of two years, after which another family member would be nominated in rotation.

After the model was designed and implemented a second analysis of the firm was conducted after 10 months.

7.7.5 Post-model implementation assessment score

Calculated assessment scores are shown diagrammatically in Figures 7.9 and 7.10. The post model implementation assessment indicates that the firm now has organised strategic planning process, a mission and unified vision of the family for the business. The model saved the family business from a near split. Implementation of the model increased the business performance, the confidence of the investors or the family members in the business and increased the coordination among the family members. It developed a team spirit among the family members.

The model could indicate with empirical findings the direction or the movement of the business on both the business performance direction and the family involvement in the business. The model also indicates that it helped the family members in understanding the business limitations and the extent to which it can support the family needs. It creates a sense of belongingness between the family and the business. The model has demonstrated that it can clear the misjudging and misconceptions the family has about the family business, and about the members actively participating in the business. It focuses on more dialogue between the family members and the non-family managers operating the company.

The present case study post implementation of the model, still has certain drawbacks such as the employee turnover is still little higher compared to industry standard, there is still a little amount of mistrust among the members of the family or the cousin. However, this is considered normal in a large family of cousin consortium involved in the business.

From the above case study analysis, the model indicates that it fits the needs of strategic planning in the family businesses of Saudi Arabia. It is based on the main notion of parallel planning process for the family commitment in the business and the actual business planning based on the external environment scanning and internal appraisal. It stresses the involvement of family and the importance of family culture and traditions that shape the family commitment towards the business.

Figure 7-9. Business Assessment for Case No. 5

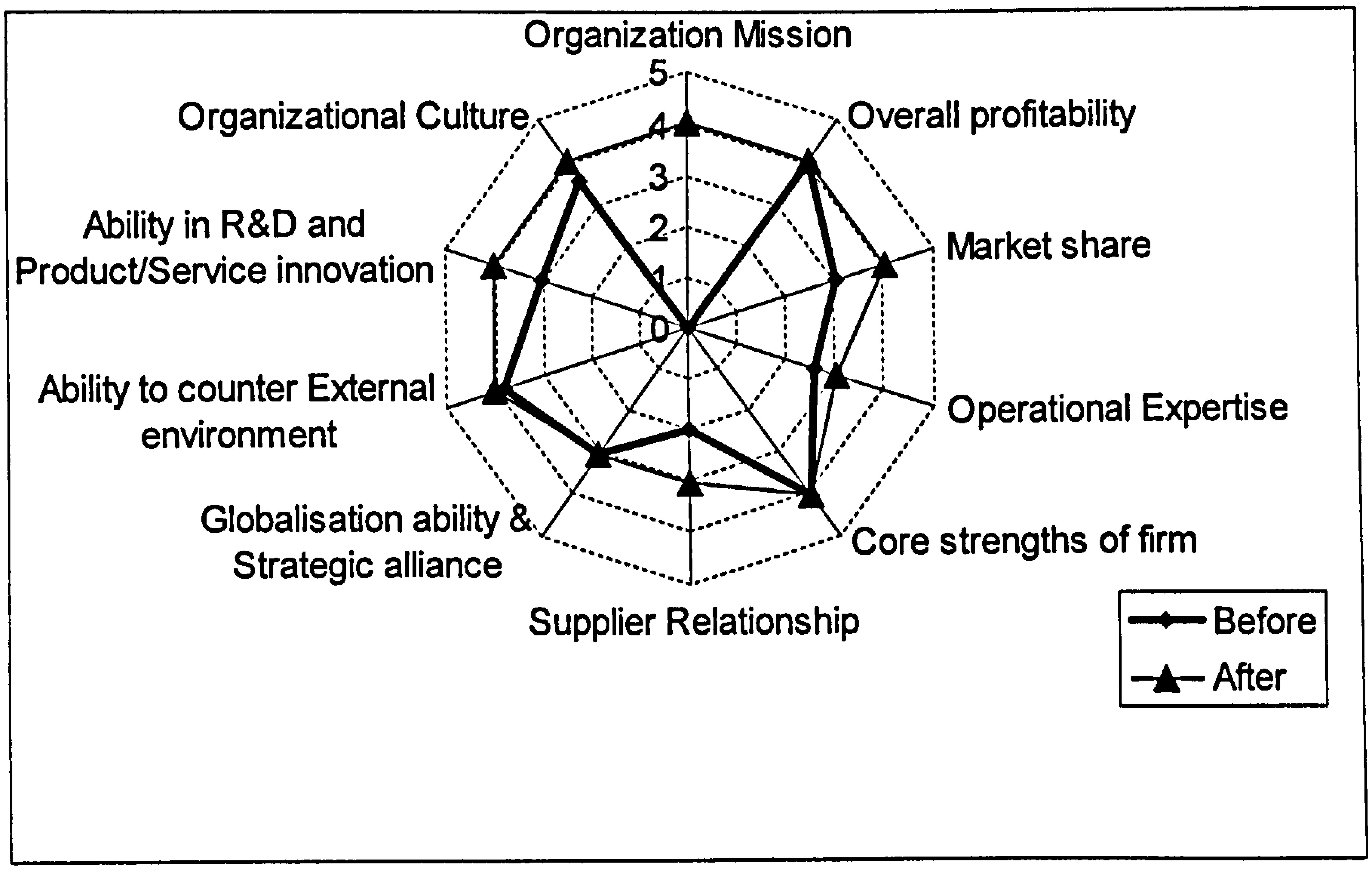
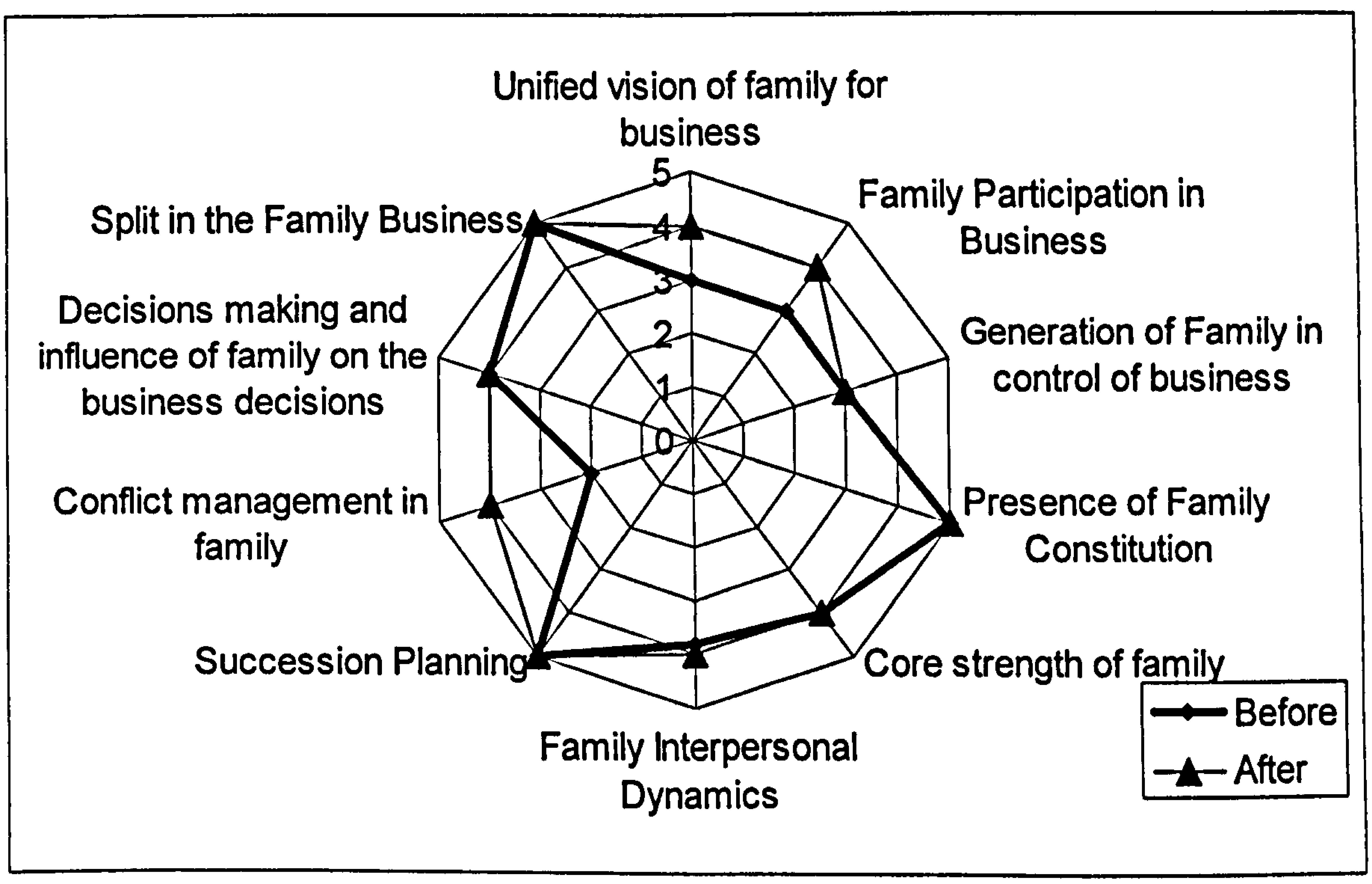
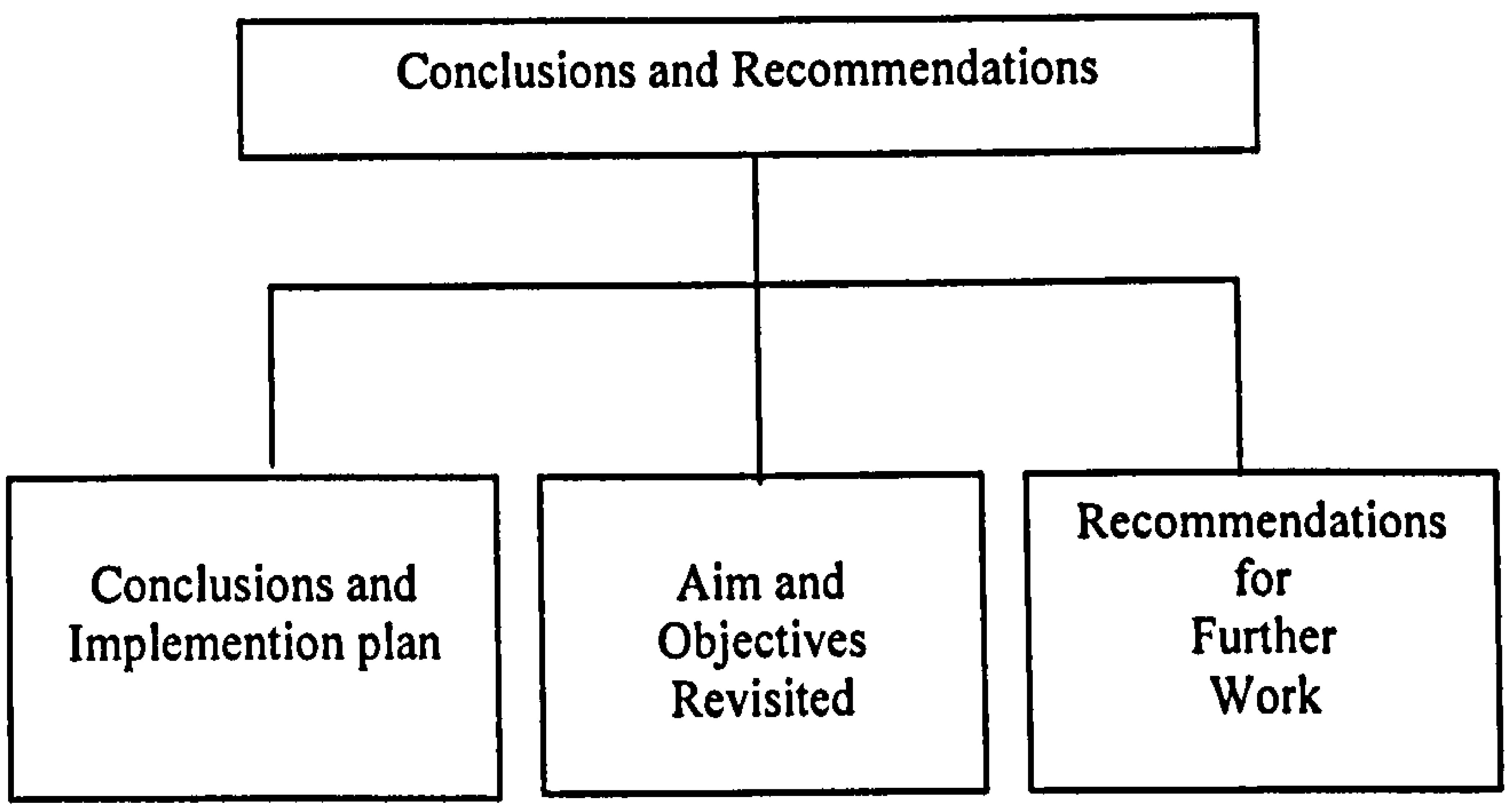


Figure 7-10. Family Assessment for Case No.5



CHAPTER

8 CONCLUSIONS AND RECOMMENDATIONS



8.1 Conclusions and implementation plan

This section is divided into two sections. The first section outlines the main conclusions derived from the thesis. The second section presents a plan for implementation of the strategic plan based on the lessons learned from the research and from the conclusions made.

8.1.1 Conclusions

The following conclusions can be made:

1. The literature review and the empirical findings of the research conclude that strategic planning process in a family owned business begins with a unified vision

of the family and business entities. The family plays a central role in the family business, providing it with the resources and the legitimacy of existence. The research of family businesses in Saudi Arabia indicated that most family businesses did not have an organised strategic planning process. The family businesses were most practical in nature, with the owner having a strict control on the family owned firms and the family. The families lacked an organised and unified approach towards the business management.

2. The influence of culture is very high on the family businesses particularly in the Kingdom of Saudi Arabia. The families are highly influenced by Islamic culture, which accords a high status to the elder members of the family. The culture of the sub-continent is the eldest son to succeed the owner of the business. This tradition is highly respected in the sub-continent. The majority of family businesses follow this tradition and the elder brother who takes over the business is looked upon by the younger members as a father figure.

3. The other cultural factor noticed uniquely in the context of this research that conflict is rarely or often not discussed within the family. For example, none of the family businesses investigated in this research had moved to legal suits in cases of conflict. This is significant and indicative of the cultural influence on the family.

4. Few family businesses in Saudi Arabia have a family constitution with few having organised family councils. Family members meet occasionally to discuss business matters. If properly developed, such a constitution would solve many immediate problems such as the induction of other family members or the siblings into the business and the timing of this.

5. The profit distribution in the family business is based on the Islamic law of Sharia, which offers 3/4 of the share to a son and 1/4 share to a daughter. The taxation system is also based on the principle of ZAKAT.

6. The owner founder in most family businesses does not retire for very long until ill health. He oversees the business even after the second generation takes over the business. The research concludes that the culture of Saudi Arabian society has an immense influence on the functioning of the family businesses. The family

traditions, value systems and norms of the family have an immense influence on the functioning of the family business.

7. A great majority of family business owners lack professional business management skills. They depend on foreign professionals for the management and administration of their businesses. The heir to the family business is also trained by this group of expatriate managers prior to his taking over of the business.

8. Family business owners of Saudi Arabia believe more in short term plans – more than likely of six months duration. Majority of them do not plan for the long-term strategies of the firm. The most common explanation found during the course of research is they feel the future is very uncertain to be planned for more than six months. There are no organised planning methods or tools adopted by the firms. Most of them conduct ad hoc planning as and when required on a case-by-case basis. Most of the firm lack quality protocols and organised systems of information management and sharing. Majority of the medium and small-scale enterprises have a centralised administration and control. Delegation of authority and responsibility to the middle level management is minimal in such firms.

9. The other notable feature identified during the research is timing of the strategic planning process in the family owned businesses. The family continuity plan in the business and the strategic planning for the business are not conducted simultaneously. There is no parallel planning process for the family and the business together. The families lack the initiative to plan their role in the business or their level of participation in the business.

10. The research concludes that family should be the focus of attention, source of motivation and vision providers for the business in a family owned business. There is should be a serious family commitment for the business for its survival and success. There should be a unified vision of the family and business, which form the basis of strategic planning process in such firms. The family should plan its participation in the business, and should proactively participate in the functioning of such family owned businesses. The strategic planning process of a family business is incomplete without the inclusion of a family vision and expectations of the family from the business.

11. For a smooth functioning of family businesses and to avoid major splits due to conflicts, family businesses should have an organised family constitution and family councils. These help in family cohesion and a unified approach towards the planning for the family owned firms. The model suggested in the research focuses on the integration of family and business entities and proposes a parallel planning approach for the family and business. The model also suggests the formulation of family systems such as family constitution, family councils and family meetings to increase the communication among the family members and develop a unified family philosophy for the business. The model also suggests methods of family business assessments and methods to develop a unified family business vision, which forms the basis for the strategic planning process in such firms. The model strongly recommends considering the culture and value system of the family during the formulation of strategic planning process. A balance of family needs and business needs is to be achieved in the strategy adopted by the family firms.

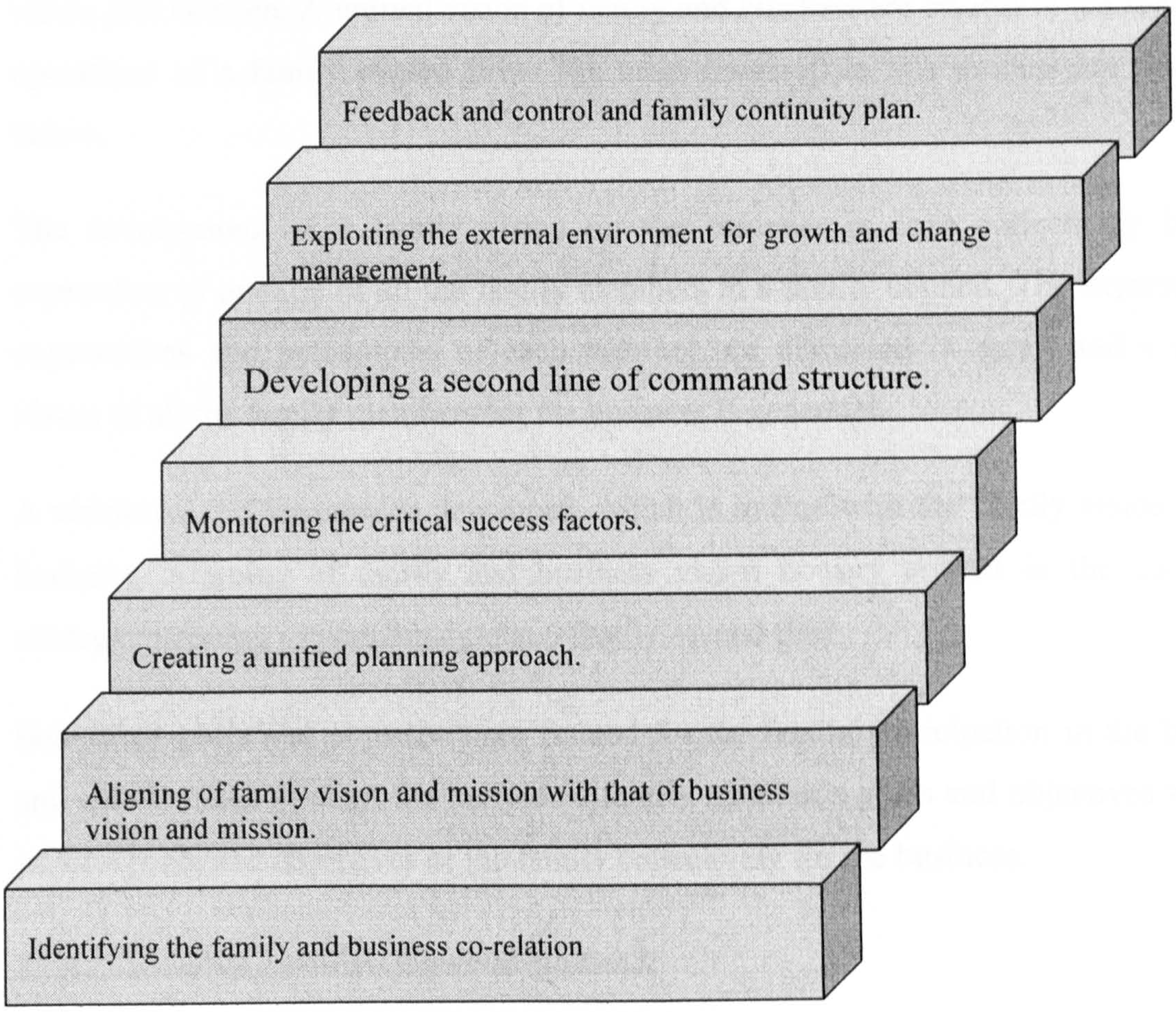
8.1.2 The implementation plan based on the findings of the research

The implementation of a strategic plan in family business can be conducted as a seven step approach as shown in Figure 8.1.

These seven steps are:

1. Identifying the family and business correlation.
2. Aligning of family vision and mission with that of business vision and mission.
3. Creating a unified planning approach
4. Monitoring the critical success factors.
5. Developing a second line of command structure
6. Exploiting the external environment for growth and change management.
7. Feedback and control, and family continuity plan.

Figure 8-1. The seven steps of the implementation of a strategic plan in family business



Step 1: Identifying the family and business correlation

The first step in the strategic planning approach would be identify the current level of family and business correlation, such as the current status of the family business (family oriented, business oriented or balanced approach) and the level of family participation in the business. Some of the factors that need to be analysed in this first process are:

- The current philosophy of the family towards the business.
- The motivation and commitment of family members towards the business.
- The returns the family expects from the business and the perceptions of the family about the role of business in their personal life.
- The current status of business operations, geographic distribution and the type of ownership status it has.

Step 2: Aligning of family vision and mission with that of business vision and mission.

The second process is the aligning of a family vision and mission with that of a business vision and mission. A unified vision of family and business are critical in the successful operations of a family owned firm. The tasks involved in this process are described below.

The development of a family vision for the business is done collectively by free expression of opinion of all the family members in a family council. The expression of expectations and perceptions of each member are discussed in detail and a unified vision of all the family members for the business is generated.

A vision for the business is developed, which is in line with the family vision for the business. Aligning of family and business vision is very critical in the successful strategic planning implementation at a family owned firm.

Individual goals and objectives are framed for the family participation in the business and care is taken to align the individual family member's goals and objectives with the unified goals and objectives of the family collectively for the business.

Step 3: Creating a unified planning approach

A unified planning approach between the family and business is required. The steps to be undertaken in this task are:

- Identifying the external and internal opportunities, threats, strengths, and weaknesses of the firm.
- Identifying the long-term ambitions and plans of the family collectively.
- Setting the benchmark of extent of family participation in the business.
- Delegation of authority and responsibility to the active participating members of the family in business.
- Exploiting the strength of the family to leverage the opportunities of market for the family business and blocking the threats with the strength of family support and the business strengths.
- Setting the targets of achievement for the family and business collectively for the family business to attain higher market share.

Step 4: Monitoring the critical success factors.

In the fourth step, the critical factors of performance for both the family and business are monitored regularly, such that they move conjointly towards achieving the objectives and goals set in Step 2. Some of the most important factors, which need to be monitored, include:

- The social and financial performance of the family business on the performance standards set in Step 2 of the process.
- The family unity, cohesion and dynamics based on the family constitution designed collectively by the family members.
- The direction of communication in the organization and the family.
- The organization culture, attitudes, values, and believes of the employees and family members participating in the business.
- Conflict management in the family and avoiding its influence on the business.

Step 5: Developing a second line of command structure

In this step, a second line of command structure is designed for the continuity of the family in the business and its active participation in the business. The steps involved in this phase are:

- Succession planning and announcement.
- Developing the successor in the ideology of family and business correlation.
- Training of the second line of command structure and their induction in the business.
- Balancing the ambitions and interest of different family members, who are working or are a part of the family business.

Step 6: Exploiting the external environment for growth and change management.

Change management is very critical for the life or continuity of the family business. Some of the critical steps that need to be monitored during this phase are:

- Adapt to the changes in the external market.
- Adapting incremental change approach compared to radical change approach.
- Develop a continuous learning organization.

- Focus on skills development of the employees and family members working in the firm.
- Innovate and differentiate the products or services being offered in the market.
- Diversification in profitable line of business.
- Use technology as an advantage to develop business process and to gain a competitive advantage in the market.

Step 7: Feedback and control, and family continuity plan.

The final step in the strategic planning process is the feedback and control from the family and business as a mechanism of achieving the organization objectives set in step one. Some of the factors that need to be monitored during this phase are:

- A feed back of the business performance on the benchmark of performance standards is monitored to constantly identify its direction of movement towards the set goals and objectives.
- A feedback from the family about its satisfaction with the return of business.
- A feedback from the family about the brand image the business has created for the family.
- The satisfaction of individual members of the family from the business.
- A feedback about the family interest in continuity in the business.

8.1.3 Summary of the proposed Strategic Planning Model for Family Business in the Kingdom of Saudi Arabia.

The following points can be made about the model developed:

1. Strategic planning in family firms aligns the family goals with that of business goals.
2. It expands the options and ability to respond to change by the organization.
3. It generates more information and reduces uncertainty through better understanding.

4. It makes people working in the organization realise what they are working for, what is expected out of them. It gives them a direction towards organizational goals and objectives.
5. It anticipates inevitable change and better implements required change.
6. It helps the company to meet competition more effectively.
7. It makes the firm more proactive rather than reactive to the changing environment.
8. It helps to perpetuate the institution beyond the life of the owner founder.
9. The articulation of the mission and objectives and the formulation of strategy helps people in organization understand what the organization stands for, what is the development path charted out, what are the planned results over a period of time.
10. It makes the family business owner realise their potential capabilities as founded in the study of **[Ward, 1987]** in 200 family owned firms.
11. It prepares the organization to face formidable the changes in the external environment.
12. It leads to family union or harmony in the form of family councils.
13. It increases the communication among the family members.
14. It increases the exchange of thoughts and knowledge between the family and non-family managers.
15. It helps in succession planning.
16. It helps in performance evaluation and capabilities evaluation of family members in the business.
17. As the decision-making due to strategic planning in organization becomes clear, it reduces conflicts in the family firms.
18. It helps in identifying strengths and weaknesses of the organization.
19. It helps the firm in exploiting the opportunities available to the firm and protects the firm from threats.
20. It helps the firm in developing competitive edge over the competitors.

21. It helps in defining the role of family in the business.
22. It builds a common understanding of business and family goals among the key players of the business.
23. It persuades and motivates the family members and business employees to move in one direction instead of several. This increases the chances of achieving the business as well as individual goals.
24. It helps in portfolio analysis of a family with multiple SBU's.
25. It helps in competitor analysis and strategic group analysis.
26. It helps in resource allocation to various functional areas.
27. The benefits of strategic planning in family business have been researched by **Jones [1982]** and **Ward [1987]**. Similarly, other authors like **Christensen [1953]**, **Trow [1961]** and **Lansberg [1985]** have shown the affects of absence of business planning in family owned businesses.

8.2 Aim and Objectives Revisited

The aim of this dissertation was to develop a model for the strategic planning process of a family owned firm in the Kingdom of Saudi Arabia and this has been achieved. The model described in Chapter 6 is based on a critical analysis of family owned firms. It incorporates the most critical factors that shape the strategic planning process in family owned firms in the Kingdom. The model developed was validated in a sample of 5 family owned firms and the results have been discussed in Chapter 7. The results of validation indicate that the model helps the family business owners in developing the family participation philosophy and accordingly assist them in developing a unified family-business vision and associated strategic planning process.

The model has also helped resolving gaps identified in other models. These were judged unsuitable for application in Saudi Arabia. The model identifies the importance of family culture and values and the importance of family participation in the strategic planning process of family owned firms. Such issues as the level of family participation in business, succession planning, conflict management, conflicting goals of family members and conflict in terms of remuneration and profit sharing of family members can be readily resolved with the proposed model and the validation results as discussed in Chapter 7 clearly show this.

8.3 Recommendations for further research

No study has been conducted in Saudi Arabia so far on the operational management or the strategic planning process of family owned firms in the kingdom. In spite of family owned firms constituting more than 90% of the private sector and contribution of more than 75% of the non-oil GDP of the country, little has been done by the state or academic institutions to critically analyse the functioning of these family owned firms, their dynamics and critical problem areas. It is believed that this thesis is the first of its kind academic work done in this literary area. I conclude my thesis, with the opinion and recommendation that there is more work to be done on the family owned firms. The subject is amenable to further exploratory research work in critical areas of family business operations such as:

- Family constitution development methods and the factors that constitute an ideal family constitution based on the cultural background of the families in business.
- The influence of culture on functioning and decision making process in a family owned firm.
- Conflict management in family owned firms.
- Restructuring the family firms for strategic alliances with MNC's.
- Family participation philosophy and its importance in the strategic planning process of family owned firms.
- Economic contribution of family owned firms to the nation and the private sector.

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Appendix A: Stage 1 Questionnaire

BUSINESS FACTORS

1. Name of the firm:

2. Year of Establishment:

3. Capital investment at the time of establishment:

< 10,000 SR	10,000-20,000	20,000-40,000	40,000-60,000	60,000-80,000	80,000-1,00,000	Others specify

4. Type of Firm:

- Sole proprietorship
- Family partnership between brothers
- Family partnership between cousins
- Family partnership of father and sons
- Semi family ownership with partnering from outside investors.
- Others specify

5. What is the legal status of your firm:

- Sole ownership
- Joint venture
- Holding company
- Private limited company
- Public limited company
- Others specify

6. What is the main line of business operation of your company: (Choose only one)

- Manufacturing
- Trading & Contracting
- Services
- Distributor
- Retailer
- Dealer
- Forwarding agent
- Agency

- ❖ Construction
- ❖ Geo-exploration & Excavation
- ❖ Petrochemical
- ❖ Financial institution
- ❖ Consultants
- ❖ Others specify

7. How many family members are involved in the business?

NONE	ONLY ONE	2-4	4-6	6-8	8-10	Others specify

8. How many of them are active members working for the family business?

NONE	ONLY ONE	2-4	4-6	6-8	8-10	Others specify

9. If the family is active in the business, which generation is managing the business?

NONE (professional mangers are controlling)	First generation	Second generation	Third generation	Fourth generation

10. Does your company or the group of companies has a Mission statement?

- ❖ Yes
- ❖ No

If yes how was the mission statement formulated:

- ❖ By the founder member
- ❖ By the present owner of the firm
- ❖ By a consultant
- ❖ By the family
- ❖ By the business managers and family jointly
- ❖ By consultation with the staff and managers of the company
- ❖ Others specify

11. How do you describe the operations of your firm

- Local markets
- Global markets

12. Does your firm have a Strategic plan?

    - Yes
    - No

13. If yes who formulates these plan?

    - Owners of the company
    - Business managers (Functional heads)
    - Planning department
    - Family only
    - Family and the Business managers.
    - Consultants
    - Others specify

14. How often the planning process is conducted at the company?

    - Every month
    - Quarterly
    - Half yearly
    - Annually
    - Only when required (As on need basis- Ad hoc)
    - Only in times of crisis
    - Others specify

16. What types of plans are formulated in your firm? (You may choose more than one)

    - Short term plans (less than six months)
    - Medium term plans (six months – year)
    - Long term plans (more than a year)
    - Contingency plans (only when faced with a crisis)
    - Other specify

15. From the following which of the factors in the external environment are monitored during the planning process at your firm? If so give examples three in number about each of these factors that you monitor in the external environment. Also rate if they affect positively or negatively to your firm.

FACTOR	EXAMPLE	EXAMPLE	EXAMPLE	+ VE EFFECT	- VE EFFECT
Political					
Economical					
Social					
Technology					
Competition					

16. What do you feel is the core strength of your firm. Rate the relative strength on a scale of 5 (You may choose more than one)

CORE STRENGTH	1	2	3	4	5
Marketing					
Human Resource					
Technology					
Family reputation & Good Will					
Strong Management					
Quality standards					
Family commitment and participation in business					
Financial strength					
Product or Service					
Market share & distribution channel network					
Family constitution					
Others Specify					

17. Is there delegation of Authority and Responsibility to the non-family managers & staff in your firm? If yes how would you rate this delegation in relation to the delegation of responsibility given to the family members working in the firm?

- Yes
- No

Delegation of authority to Family member working in the firm	1	2	3	4	5
Delegation of authority to Non-Family member working in the firm	1	2	3	4	5

18. Does the family have a vision for the business? If so how would you define it as? (You may choose more than one)

- Yes
- No

Family Vision:

- Perfectly aligning the family vision with business Mission.
- Business exists for the family to satisfy the needs of family members.
- Business is only a source of income for the family members.
- Business is a source of career and employment for the family members.
- Business is separate, family is separate. They cannot be mixed.
- Business is the identity of family.
- Others specify

19. What is the current net worth of your firm?

    - < SR 50,000
    - 50,000- 1 Million
    - 1 Million – 5 Million
    - 5 Million – 10 Million
    - 10 Million – 15 Million
    - 15 Million – 20 Million
    - > More than 20 Million

20. Does the family members working in the business also have performance evaluation and reward mechanism as other non-family members? If yes how would you rate this mechanism comparatively between family and non-family members working in the business?

    - Yes
    - No

Performance Evaluation & Reward Mechanism of Family member working in the firm	1	2	3	4	5
Performance Evaluation & Reward Mechanism of Non-Family member working in the firm	1	2	3	4	5

21. How is the new family member induction in the business done?

    - Undergoes initial training for a specified period under a senior non-family manager in the business.
    - Undergoes training under the founder member or the head of the family business.
    - Is sent outside the family business to other firm to gain work experience.

- Starts the training from the operational or production level of the business and slowly is promoted to higher responsibilities.
- Direct induction as a manager working directly under the supervision of the head of the family business.
- There is no specific training and induction mechanism in the business.
- Others specify.

FAMILY FACTORS

1. How can you describe the family structure of the family involved in the business of your firm:

    - Joint family
    - Nuclear family
    - Very large joint family with cousins in it.
    - Other specify

2. How many family members are working outside the family business?

NONE	ONLY ONE	2-4	4-6	6-8	8-10	Others specify

3. Does all the family members have the freedom to decide and plan their future or is everybody trained, groomed and obligated to enter the family business?

    - No the family members do not have the freedom to work outside the family business.
    - Yes the family members have the freedom to plan their career in any field outside the family business.
    - The family members can pursue any career as a hobby but has to work for the family business.
    - The family member is required to work a couple of years outside the family business to gain experience prior to entering the family business.
    - Others specify

4. How are the shares in the family business divided among the family? (You may choose more than one)

    - Every person has equal share in business.

- The founder has more share compared to other members
- The sons have more shares compared to daughters.
- Eldest son has more share compared to others.
- Daughters do not have any share.
- Others specify

5. How were family members oriented or motivated to join the family business?

   - The founder member or the head of the family business spoke about the business frequently at home.
   - The founder member or the head of the family business formulated a family rule that every person will work for the family business.
   - The founder member or the head of the family members took the family members in the business to work with him at an early age.
   - The founder member or the head of the family business groomed the next generation by providing specific education and skills to run the family business.
   - The founder member or the head of the family business never talked about the family business and never oriented them towards the business.
   - Others specify.

6. Does the family have a vision for the business? If yes how was it formulated?

   - Yes
   - No

   Vision formulation:

   - By the founder member
   - Collectively by all the family members. All the family members share a common vision for the business.
   - A consultant helped in the process.
   - Only the active members in the family business formulated it
   - Others specify

7. How is the succession planning carried out in your family business?

   - The eldest son always heads the business after the founder.
   - All the siblings have equal participation and power in the family business.
   - The most eligible member in terms of experience and education heads the family business.
   - The founder member or the head of the family business decides his successor. It can be any member of the family.
   - The family constitution defines the succession.
   - Others specify.

8. Does your family have a family constitution? If so what are the main contents in it?
   - ❖ Yes
   - ❖ No

Major contents of family constitution (you may choose more than one):

- ❖ Family vision
- ❖ Succession planning
- ❖ Conflict management rules in the family
- ❖ Distribution of profits
- ❖ Entry rules of business.
- ❖ Exit rules of business
- ❖ Decision-making rules in future expansion of business.
- ❖ Others specify

9. How was the family constitution formulated?

   - ❖ By the founder member
   - ❖ Collectively by all the family members
   - ❖ A consultant helped in the process.
   - ❖ Only the active members in the family business formulated it
   - ❖ Others specify

10. How are the grievances and conflicts pertaining to the family business resolved in the family?

    - ❖ The head of the family (Usually the father or mother) resolves the conflict and his decision is final.
    - ❖ A collective family meeting is called to resolve the conflict (Family Councils)
    - ❖ The family constitution helps in resolving the conflict.
    - ❖ There is no conflict management method in the family.
    - ❖ Outside help or third party mediation is required
    - ❖ Others specify

11. Was there ever a major conflict in the family, which led to the split in the family business?

- ❖ Yes
- ❖ No

12. How was the succession or transition in the firm?

    - ❖ Smooth and well planned.

- Turbulent and conflicts in the family marked the succession or transition of power.
- Minor conflicts, difference of opinion and yet smooth transition.
- Major conflict between the founder owner and sibling for transition.
- Conflicts leading to legal litigation and split in the family business.
- Collective decision of the family in the succession planning.
- Others specify

13. On a scale of five, how would you rate the emotional attachment of the family members towards the business and its continuity?

Emotional attachment of family members towards the business	1	2	3	4	5

17. After the retirement does the founder member or head of the family business still work for the family business? If yes how would rate his interference in the business on a scale of 5 (1 indicates least interference and 5 indicates very high interference)

- Yes
- No

Founder member interference in the business post retirement	1	2	3	4	5

18. What do you think is the core strength of your family? Rate the strength on a scale of 5 (You may choose more than one)

CORE STRENGTH	1	2	3	4	5
Family values and culture					
Unity in the family relationship					
Control of head of the family in the family					
Family reputation & Good Will					
Family constitution					
Family councils					
Experience of family in business					
Education in the family					
Others Specify					

19. How often does the family members meet to plan for the future of family continuation and its role in the family business?

- Every week

- Monthly
- Quarterly
- Half yearly
- Yearly
- Others specify

PERSONAL FACTORS

1. What factors motivated you to join the family business? (You may choose more than one)

    - The founder member motivated you as a role model
    - Easy and planned career option
    - Money and power
    - To continue the legacy of family in the business.
    - No motivation, you were forced to join the family business against your wish
    - Responsibility of leading the family business.
    - You were the only heir or son to succeed the family business.
    - Others specify.

2. How do you rate your satisfaction in the job of running a family business? Rate it on the scale of 5. (1 indicates least satisfied and 5 indicates High satisfaction)

Job satisfaction the family business	1	2	3	4	5

3. Have you worked with the founder member or head of the family business before taking control of the family business? If yes how would you rate your relationship with him at the place of work before taking control of the family business or currently while working with him?
    - Yes
    - No

Relation with the head of the family business at the place of work

- Founder member or head of the family business has autocratic management.
- He has centralized authority and minimal trust in the siblings working with him.
- Does not plan to retire at all and wants you to work under him till his end.
- He has little trust in your abilities and gives little delegation of authority and responsibility.
- Constant conflicts between you and him and struggle for your personal identity and power in the organization.

- Founder member delegates complete authority to you and trust your decision-making ability.
- He acts like a friend and grooms you for the business.
- He announced the succession planning with you as his successor in advance and laid the ground for it.
- He motivated you to join the business and you look upon him as a role model.
- Others specify.

4. Does the family interest influence you in the decision making and planning at business? If yes rate the level of influence on a scale of 1-5, with 1 as least influential and 5 as highly influential.

- Yes
- No

Family influence on the decision making and planning at business.	1	2	3	4	5

5. What is your perception as an individual, about the relative importance of family and business? Please rate your relative importance of family and business on a scale of 1-5.

Family importance	1	2	3	4	5
Business importance					

6. How do you rate your relations with your brothers and head of the family business at the place of work on a scale of 1-5. (1 indicates highly conflictive and interfere in your work and 5 indicates highly cordial and participative in your work)

Relationship with the brothers and head of the family business at the place of work.	1	2	3	4	5

7 Are you happy with the method of profit distribution in the family? If yes please rate your satisfaction or dissatisfaction level on a scale of 1-5?

- Yes
- No

Your satisfaction or dissatisfaction with the method of profit distribution in the family business.	1	2	3	4	5

8 Did you ever feel you deserve a higher share of profit from the family business as you work for it, manage it and take high risk in the management? If yes how strongly do you

feel about it? Rate it on a scale of 1-5 (1 – not very important and 5 very high importance)

- Yes
- No

Your perception about being commensurate with higher share in the profits, as you manage the family business.	1	2	3	4	5

9 Do you want your offspring to enter the family business and continue the family business or do you prefer they work outside the family business

- I prefer they work in the family business
- I prefer they work outside the family business.
- I cannot comment

10 In a family business do you prefer individual members to have their own businesses apart from working in the family business or do you prefer full commitment by all members in the family business? Please rate on a scale of 1-5 your perception about family members having their own business interest apart from the family business. (1- Strongly opposed to the idea; 5- fully support the idea of family members having their own business interest apart from family business.

Your perception about family members having their own separate business units apart from the family business.	1	2	3	4	5

11. What was the method of your entry in the family owned business?

- You are the founder member
- You were the eldest son in the family, hence succeeded the founder.
- You have the highest share in the business compared to other members of the family.
- Other family member due to your experience and ability selected you.
- You were the only successor in the family
- Others specify

How would you rate the succession of yours in the family business? (1- Strongly against the method; 5- Strongly justify the method)

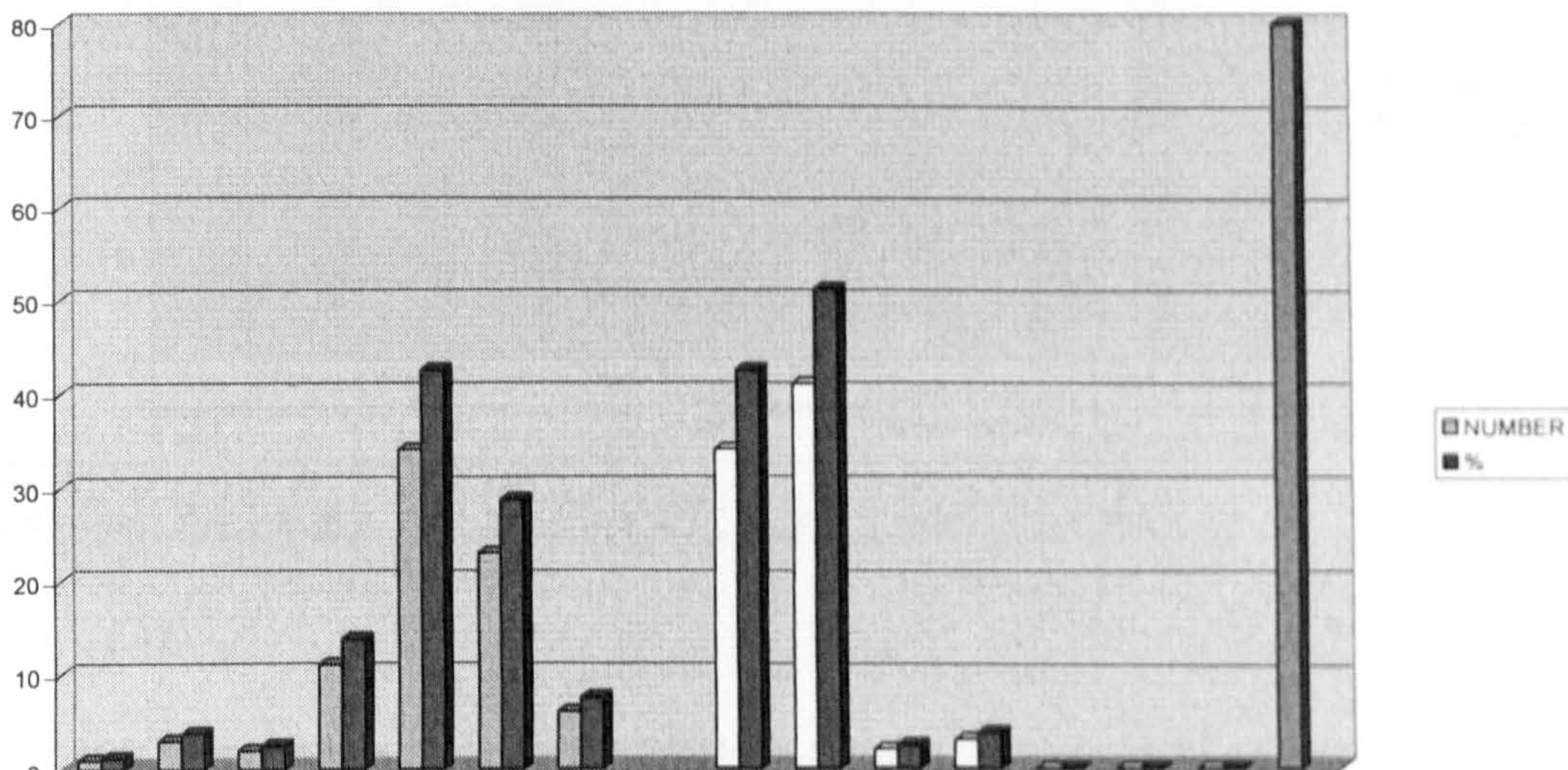
How would you rate your succession in the family business.	1	2	3	4	5

13. How would you rate the importance and applicability of family constitution & family councils to your business organization? (1- Strongly feel it is not applicable; 5- Strongly recommend it for your firm)

Family constitution & Family Councils importance & applicability to your family business.	1	2	3	4	5

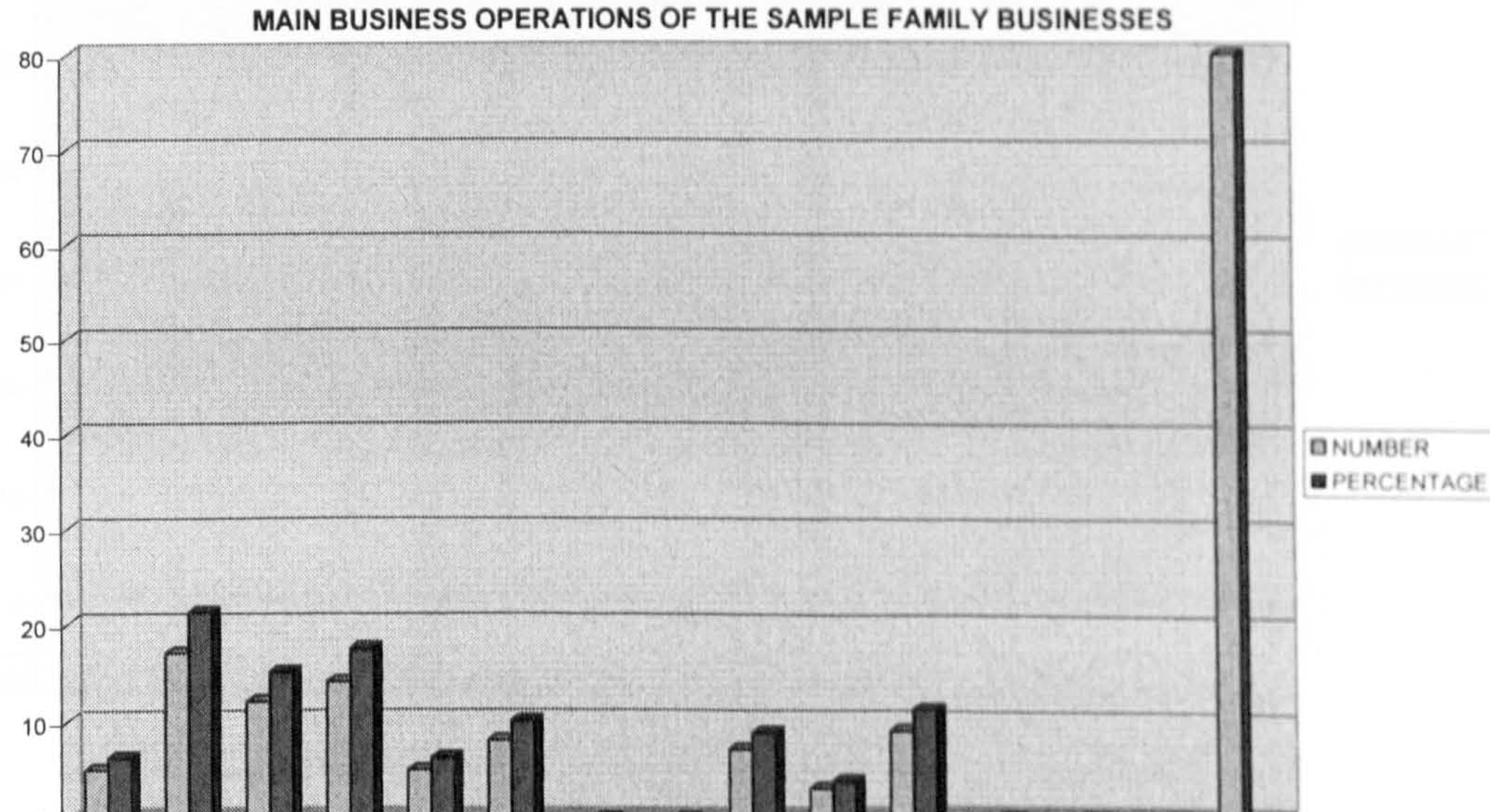
Appendix B: Data analysis results of Stage 1 Questionnaire

CURRENT NETWORTH & CAPITAL INVESTMENT OF FAMILY BUSINESSES IN SAUDI ARABIA



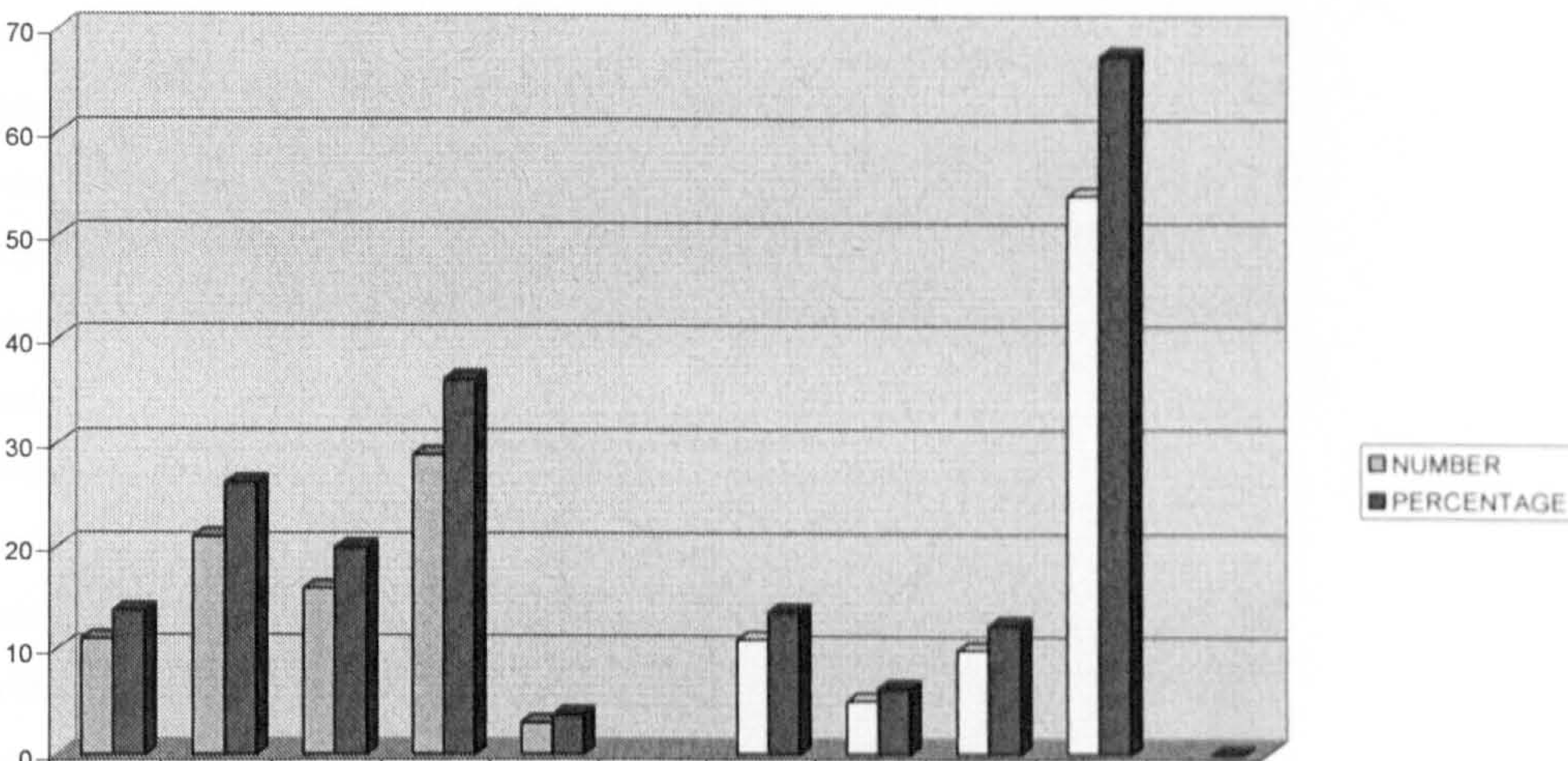
	< 50,000	50,000- 1 M	1-5 M	5-10M	10-15M	15-20M	> 20 M	CAPITAL INVESTMENT	< 10,000	10,000-20,000	20,000-40,000	40,000-60,000	60,000-80,000	80,000-1,00,000	> 1,00,000	TOTAL
NUMBER	1	3	2	11	34	23	6		34	41	2	3	0	0	0	80
%	1.25	3.75	2.5	13.75	42.5	28.75	7.5		42.5	51.25	2.5	3.75	0	0	0	

MAIN BUSINESS OPERATIONS OF THE SAMPLE FAMILY BUSINESSES



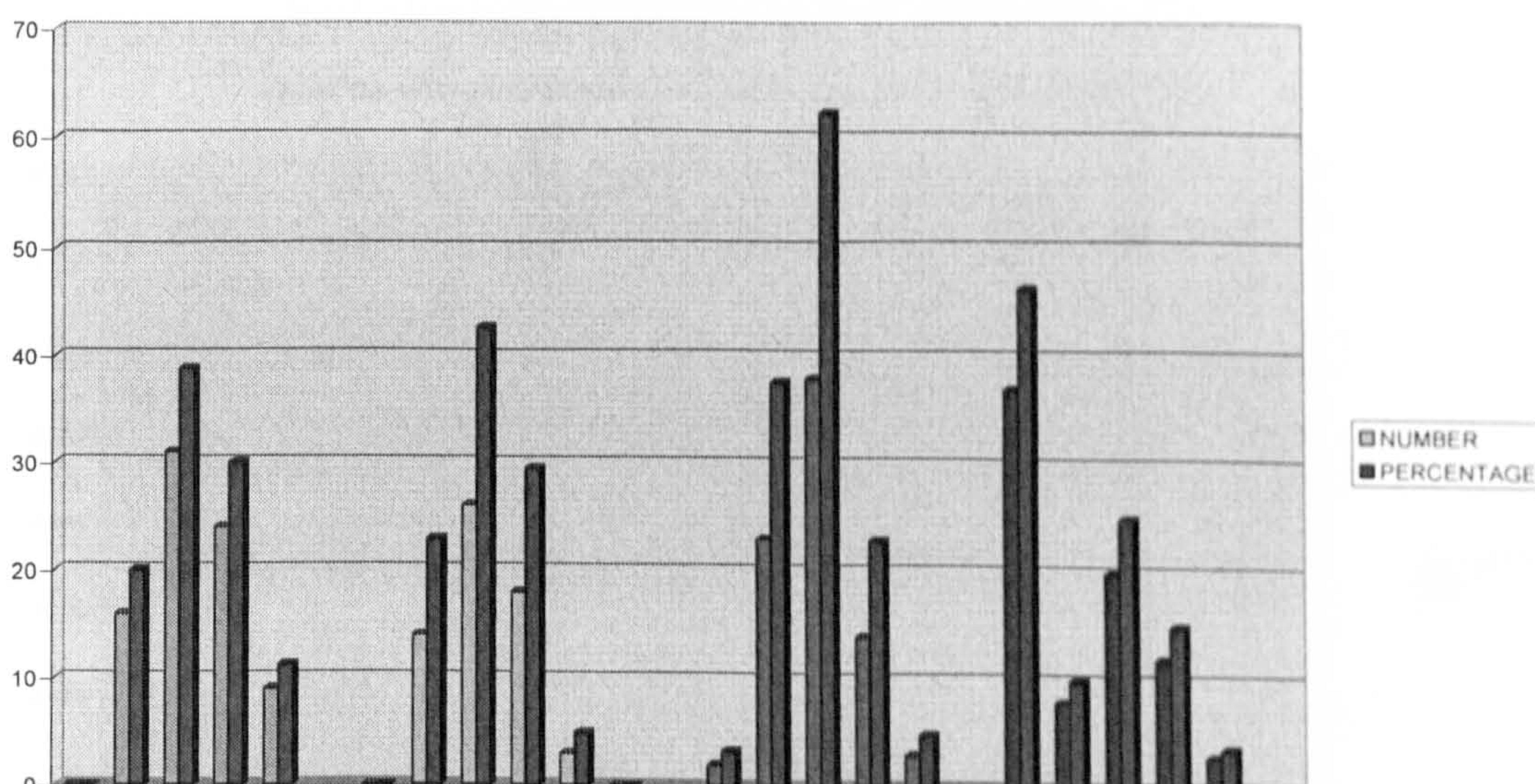
	Manufacturing	Trading & Contracting	Services	Distributor	Retailer	Dealer	Forwarding agent	Agency	Construction	Geo-exploration &	Petrochemical	Financial institution	Consultants	Others specify	TOTAL
NUMBER	5	17	12	14	5	8			7	3	9				80
PERCENTAGE	6.25	21.25	15	17.5	6.25	10	0	0	8.75	3.75	11.25	0	0	0	

TYPE OF OWNERSHIP & LEGAL STATUS OF THE FAMILY BUSINESSES IN SAUDI ARABIA



	Sole proprietorship	Family partnership	Family partnership	Family partnership of	Semi family ownershi	LEGAL STATUS	Sole ownership	Joint venture	Holding company	Private limited company	Public limited company
NUMBER	11	21	16	29	3		11	5	10	54	
PERCENTAGE	13.75	26.25	20	36.25	3.75		13.75	6.25	12.5	67.5	0

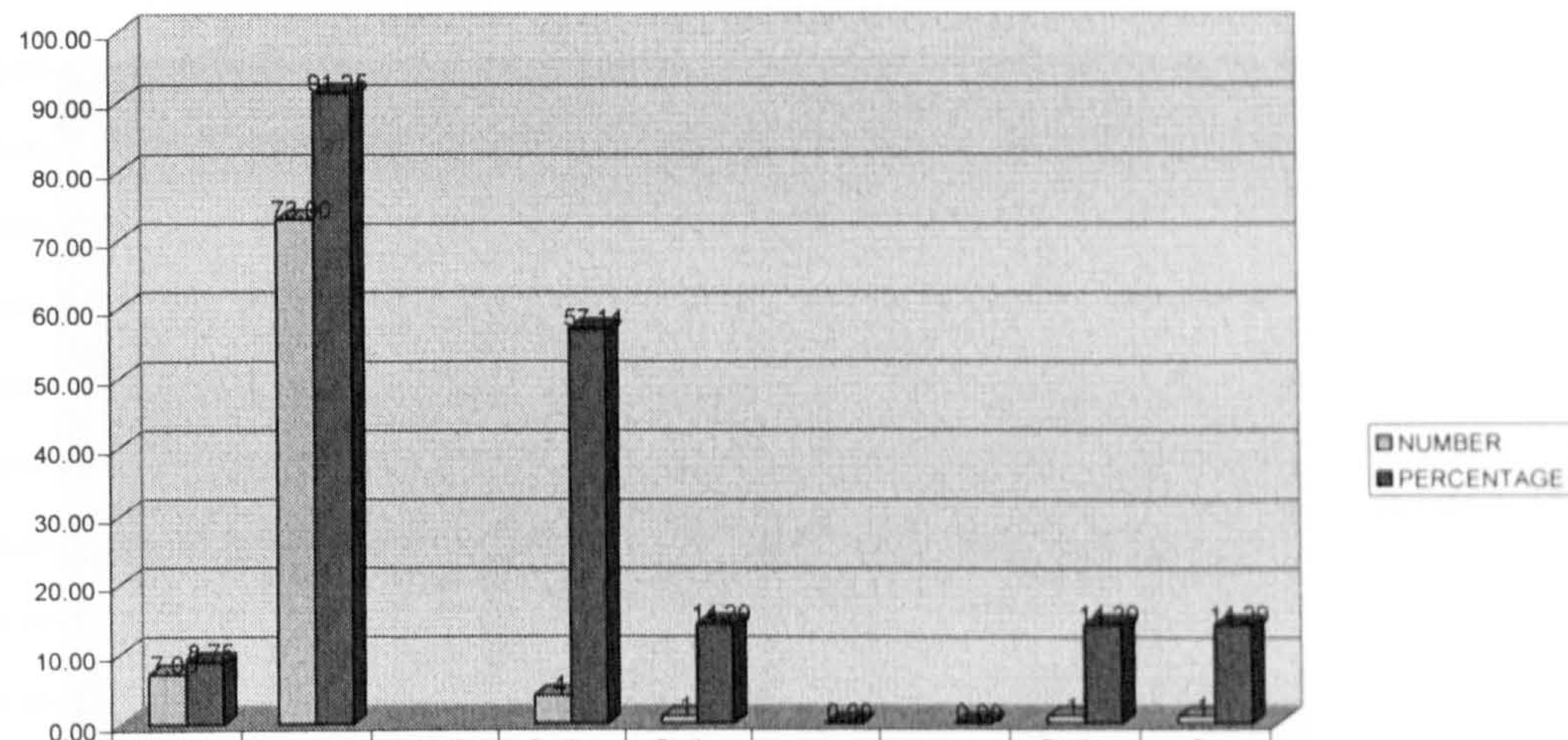
FAMILY MEMBERS WITH INVESTMENT IN THE BUSINESS, WORKING FOR THE BUSINESS, GENERATION RUNNING THE BUSINNESS AND FAMILY MEMBERS WORKING OUTSIDE THE BUSINESS



	NONE	ONLY ONE	2 TO 4	4 TO 6	6 TO 8	MEMBERS WORKIN	NONE	ONLY ONE	2 TO 4	4 TO 6	6 TO 8	8 TO 10
NUMBER	0	16	31	24	9		0	14	26	18	3	0
PERCENTAGE	0	20	38.75	30	11.25		0	22.95	42.62	29.51	4.92	0.00

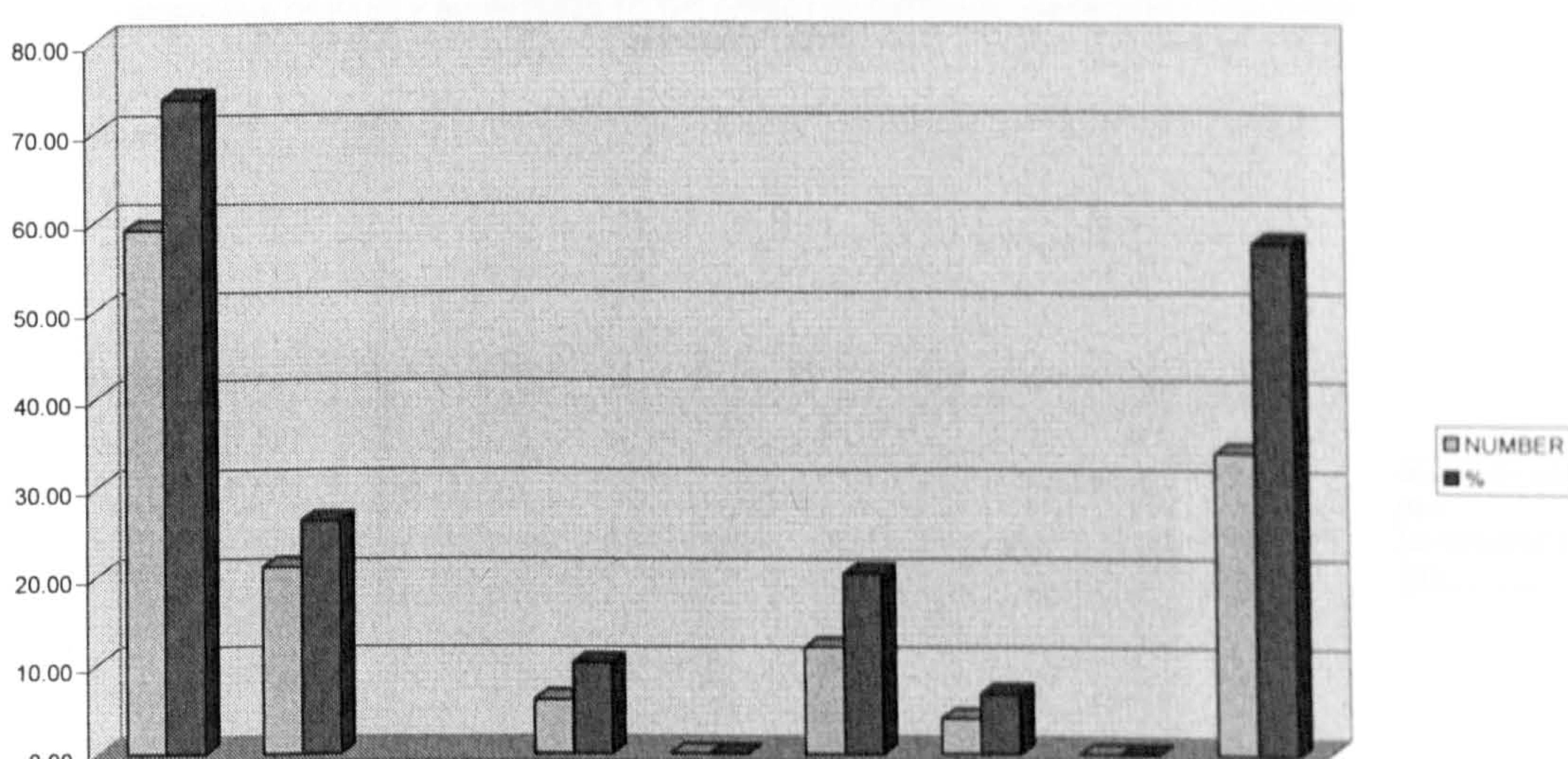
	GENERATION RUNNIN	NONE (professional)	First generation	Second generation	Third generation	Fourth generation	MEMBERS WORKIN	NONE	ONLY ONE	2 TO 4	4 TO 6	6 TO 8	8 TO 10
NUMBER		2.00	23.00	38.00	14.00	3.00		37.00	8.00	20.00	12.00	3.00	0
PERCENTAGE		3.28	37.70	62.30	22.95	4.92		46.25	10.00	25.00	15.00	3.75	0

BUSINESS FIRMS HAVING A MISSION STATEMENT & ITS METHOD OF FORMULATION



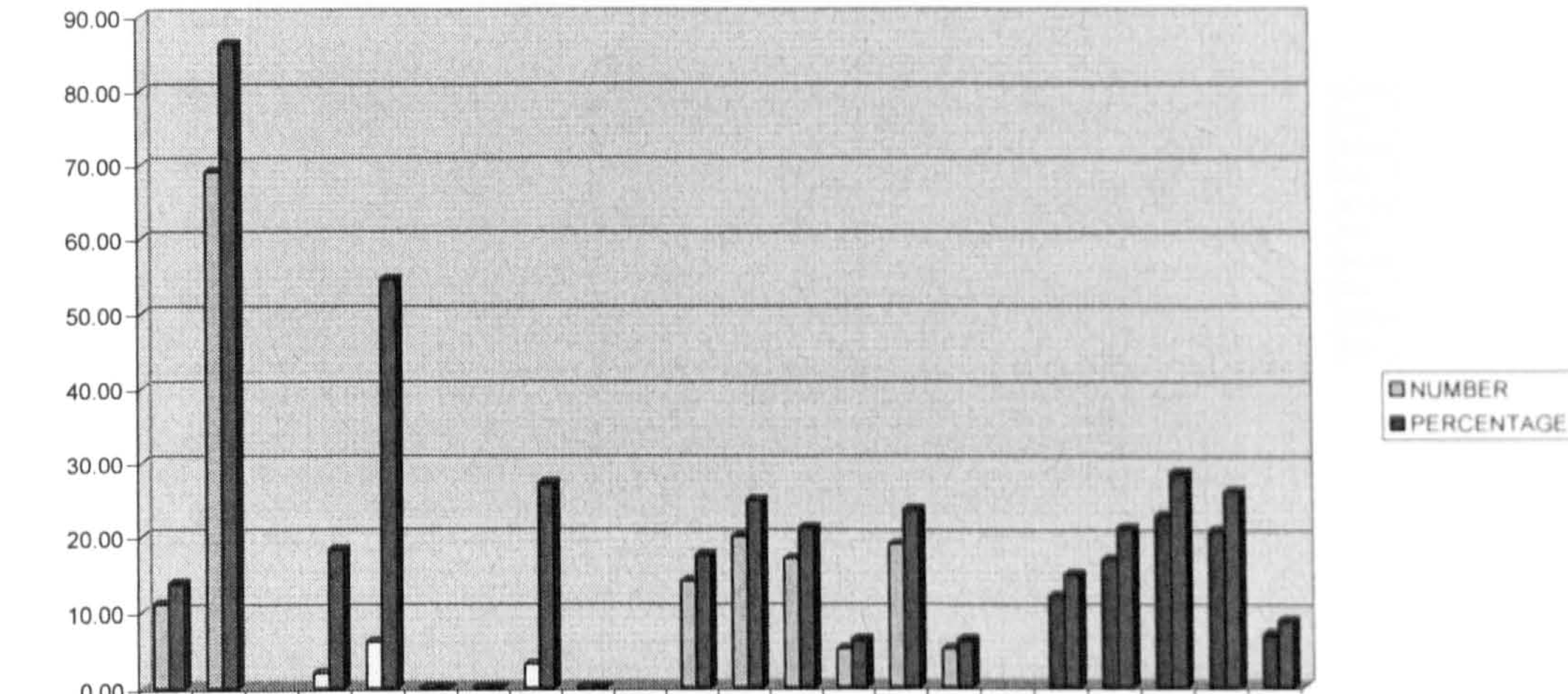
	Yes	No	MISSION FORMULATED BY	By the founder member	By the present owner of	By a consultant	By the family	By the business managers	By consultation with the
NUMBER	7.00	73.00		4	1			1	1
PERCENTAGE	8.75	91.25		57.14	14.29	0.00	0.00	14.29	14.29

FAMILIES HAVING A BUSINESS VISION & THE VISION DEFINED BY THEM



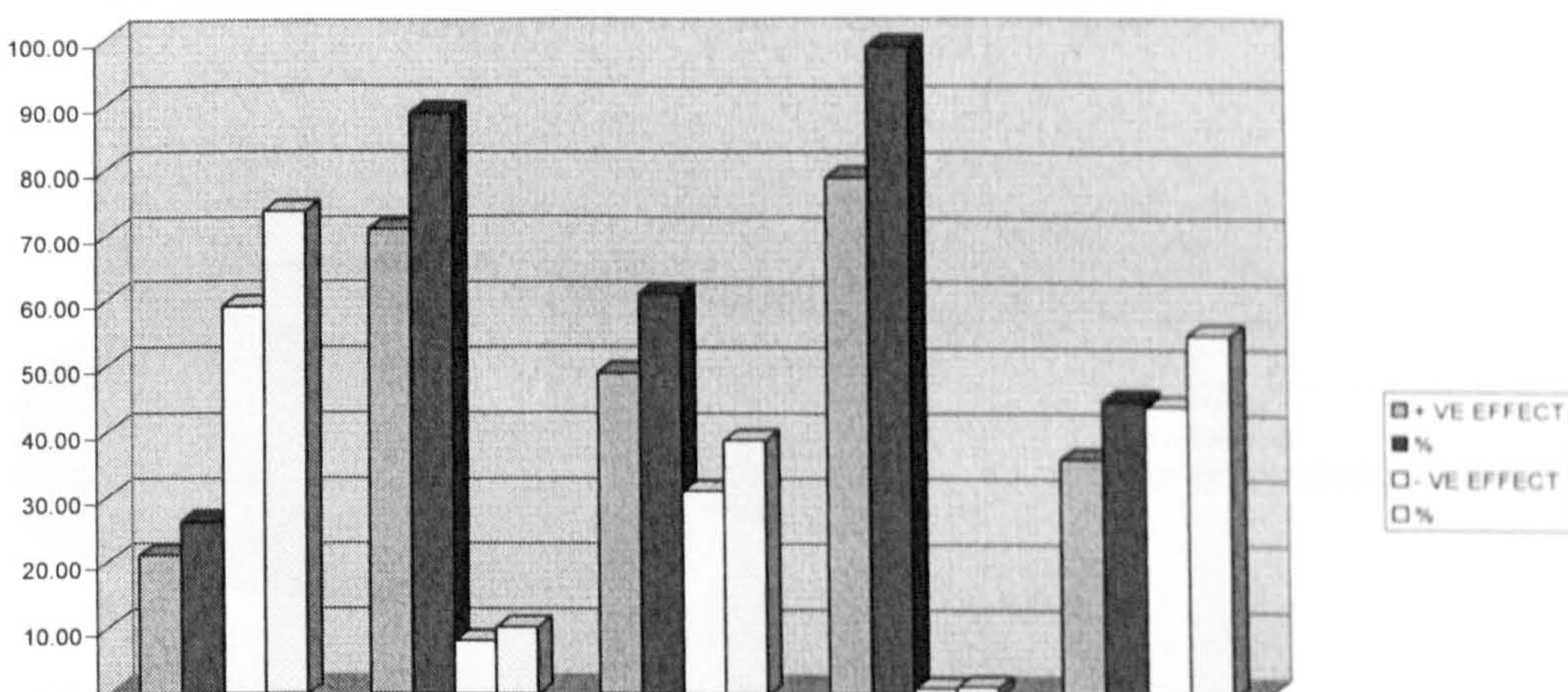
	Yes	No	FAMILY VISION DEFINED BY MEMBERS	FAMILY & BUSINESS VISION ALIGNED	BUSINESS EXSIST FOR FAMILY NEEDS	BUSINESS A SOURCE OF FAMILY INCOME	BUSINESS A SOURCE OF FAMILY	BUSINESS AND FAMILY SEPARATE	BUSINESS IDENTITY OF FAMILY
NUMBER	59.00	21.00		6	0	12	4	0	34
%	73.75	26.25		10.17	0.00	20.34	6.78	0.00	57.63

FIRMS HAVING STRATEGIC PLANS, METHOD OF FORMULATION, FREQUENCY OF BUSINESS PLANS & FREQUENCY OF FAMILY PLANS FOR THE BUSINESS



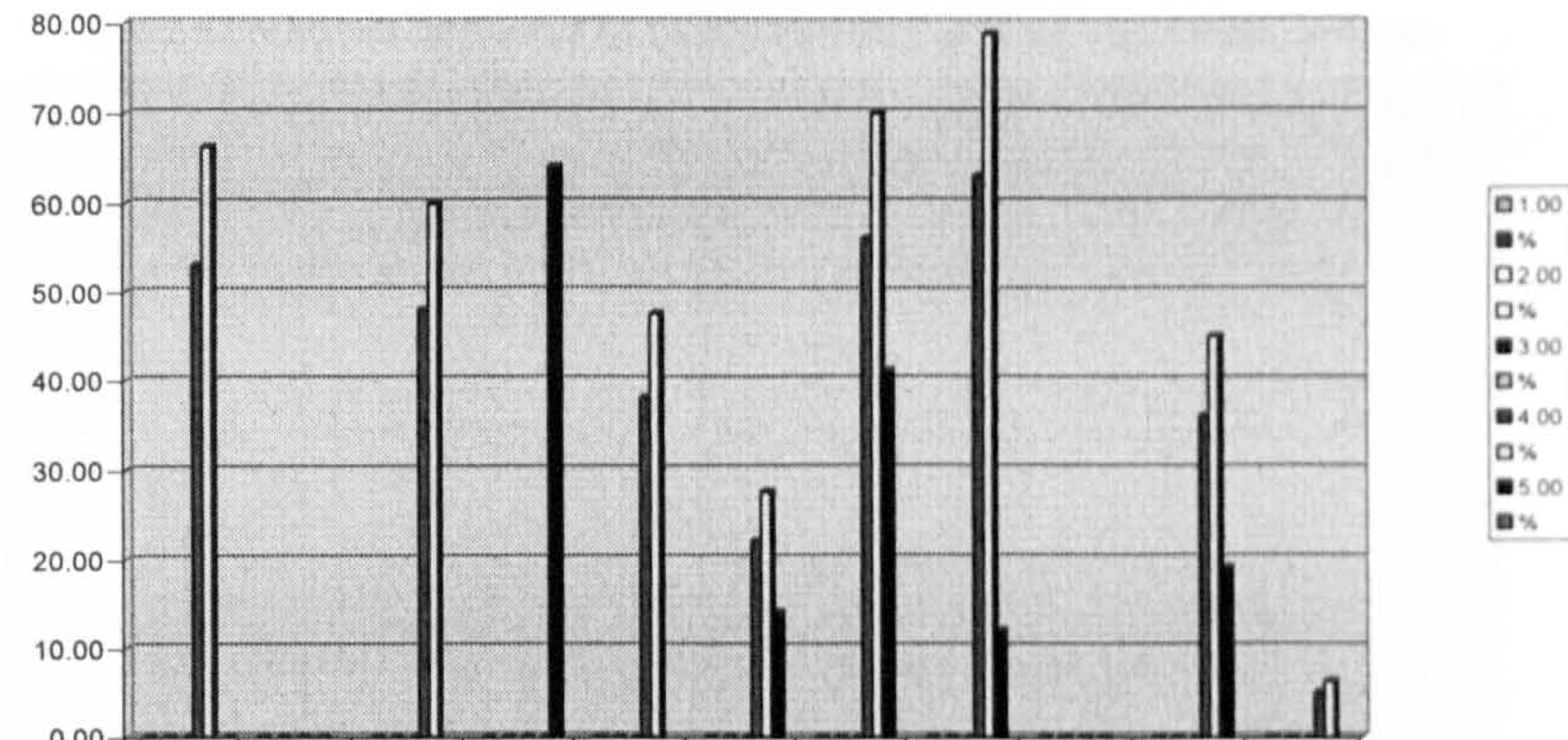
	Yes	No	PLANS FORM	Owners	Managers	Planning Dept	Family only	Family and mana	Consultants	FREQUENCY OF	Every month	Quarterly	Half yearly	Annually	Only when requir	Only in times	FREQUENCY OF	Every week	Monthly	Quarterly	Half yearly	Yearly
NUMBER	11.00	69.00		2.00	6.00	0.00	0.00	3.00	0.00		14.00	20.00	17.00	5.00	19.00	5.00		12.00	17.00	23.00	21.00	7.00
PERCENTAGE	13.75	86.25		18.18	54.55	0.00	0.00	27.27	0.00		17.50	25.00	21.25	6.25	23.75	6.25		15.00	21.25	28.75	26.25	8.75

RESPONSE OF FAMILY BUSINESSES TO THE EFFECT OF EXTERNAL ENVIRONMENT ON THEIR BUSINESS UNITS



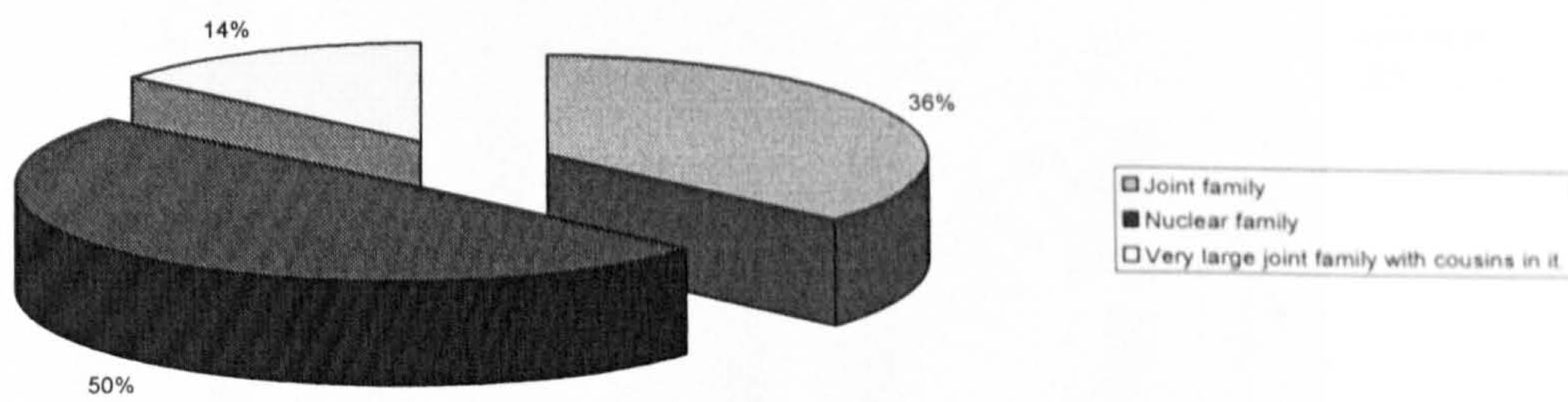
	Political	Economical	Social	Technology	Competition
+ VE EFFECT	21.00	71.00	49.00	79.00	36.00
%	26.25	88.75	61.25	98.75	45.00
- VE EFFECT	59.00	8.00	31.00	1.00	44.00
%	73.75	10.00	38.75	1.25	55.00

RATING OF CORE STRENGTHS OF FAMILY BUSINESS BY THE FAMILY

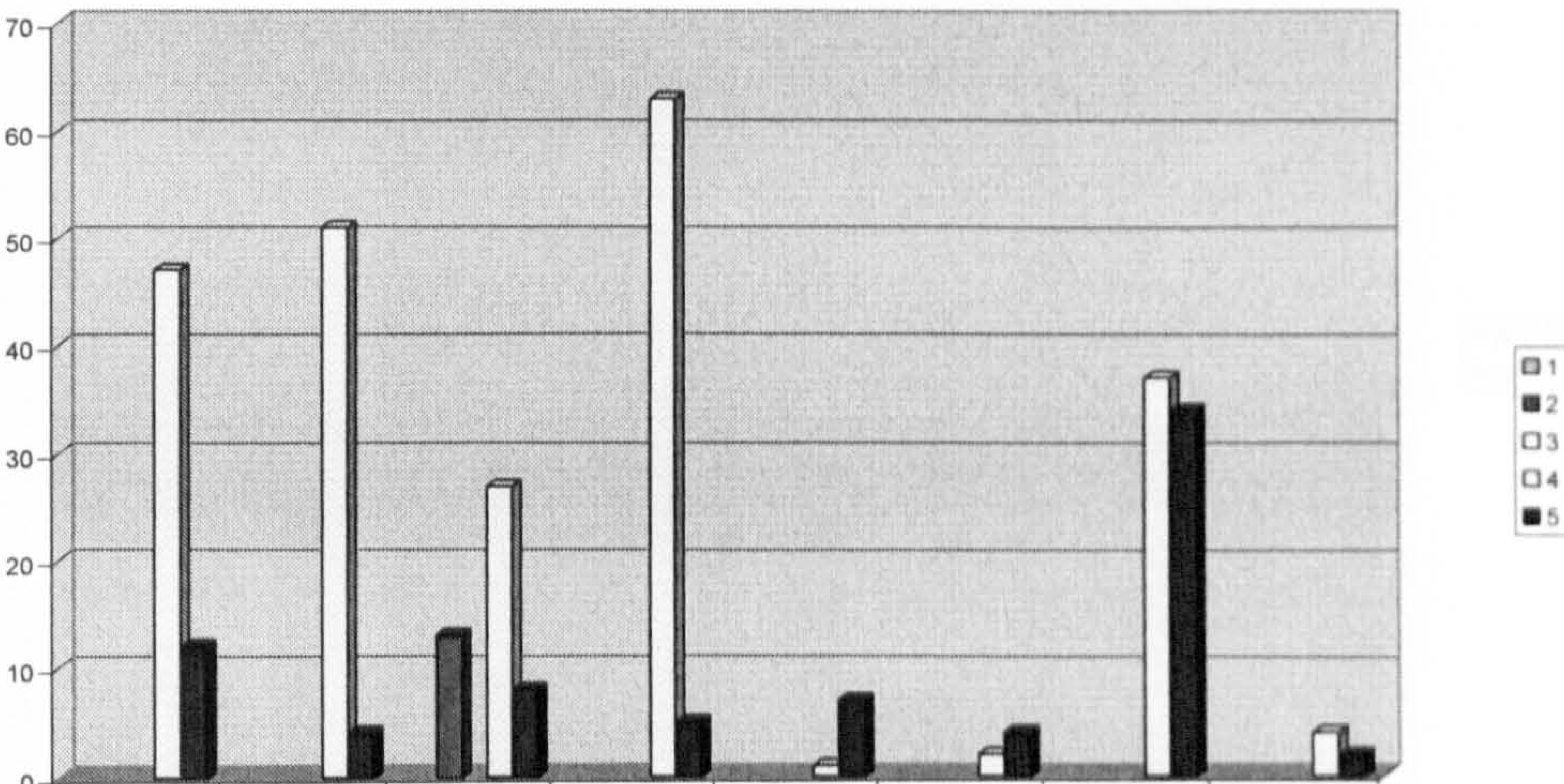


	Marketing	Human Resource	Technology	Family reputation & Good Will	Strong Management	Quality standards	Family commitment and	Financial strength	Product or Service	Market share & distribution channel	Family constitution
1.00											
%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2.00											
%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3.00											
%	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4.00	53.00		48.00		38.00	22.00	56.00	63.00		36.00	5.00
%	66.25	0.00	60.00	0.00	47.50	27.50	70.00	78.75	0.00	45.00	6.25
5.00				64.00		14.00	41.00	12.00		19.00	
%	0.00										

FAMILIES STRUCTURE

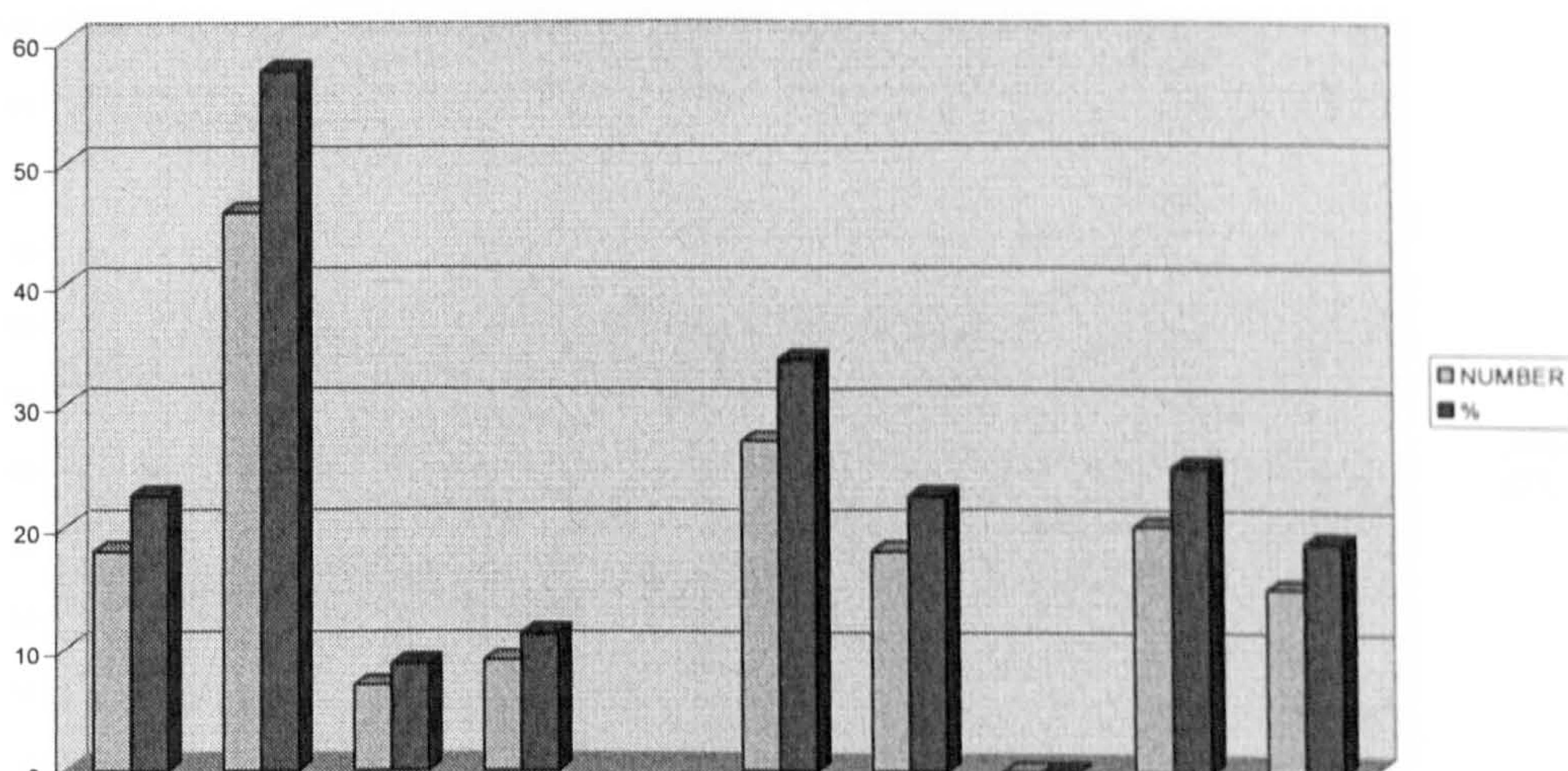


CORE STRENGTHS OF FAMILY AS DESCRIBED BY THE FAMILY BUSINESS OWNERS



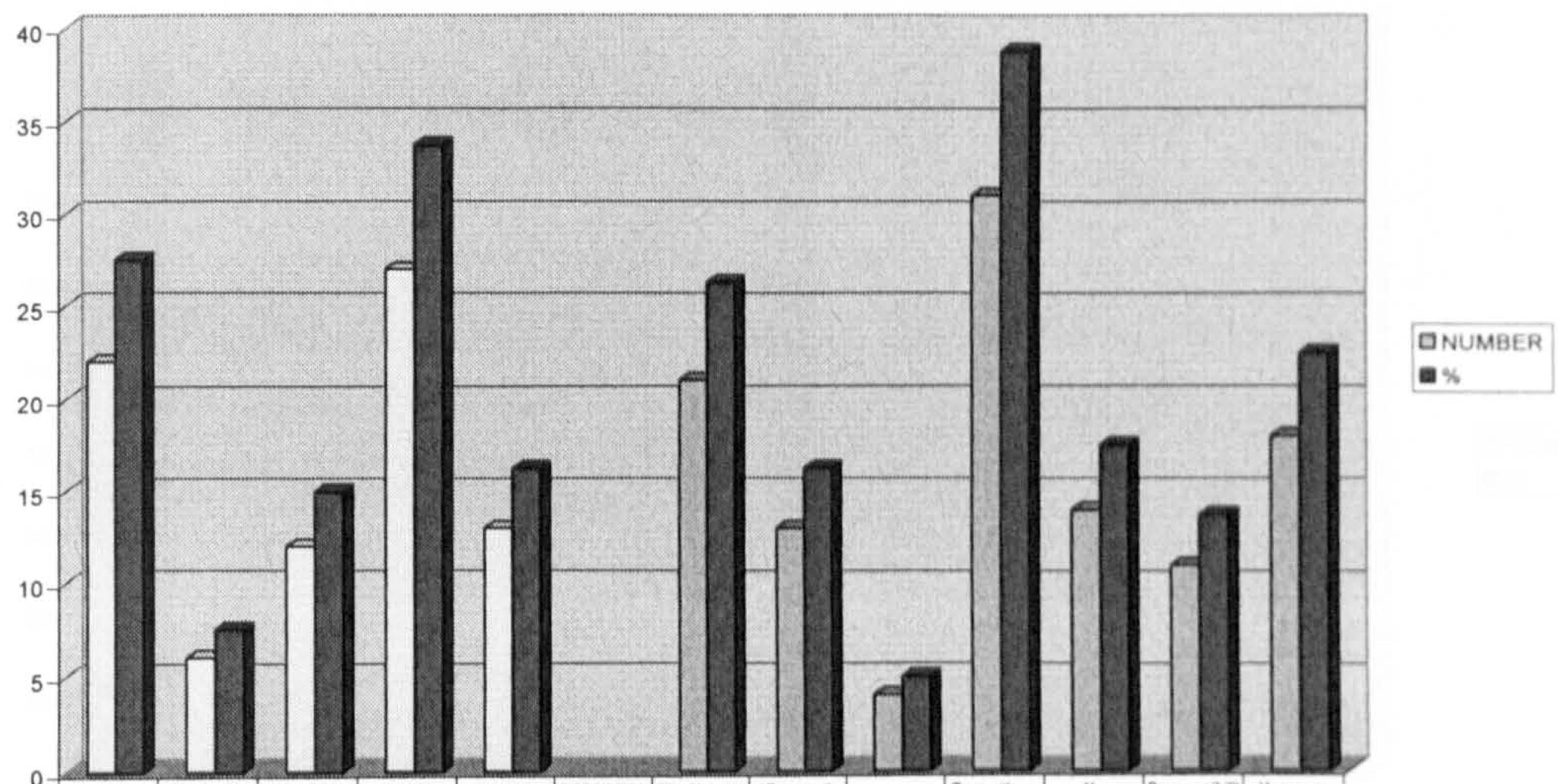
	Family values and culture	Unity in the family relationship	Control of head of the family in the family	Family reputation & Good Will	Family constitution	Family councils	Experience of family in business	Education in the family
1								
2			13					
3								
4	47	51	27	63	1	2	37	4
5	12	4	8	5	7	4	34	2

RESPONSE OF THE FAMILY MEMBERS TO THE FREEDOM OF SELECTING THEIR CAREER AND THE RESPONSE TO INDIVIDUAL FAMILY MEMBERS HAVING THEIR OWN BUSINESS APART FROM THE FAMILY BUSINESS



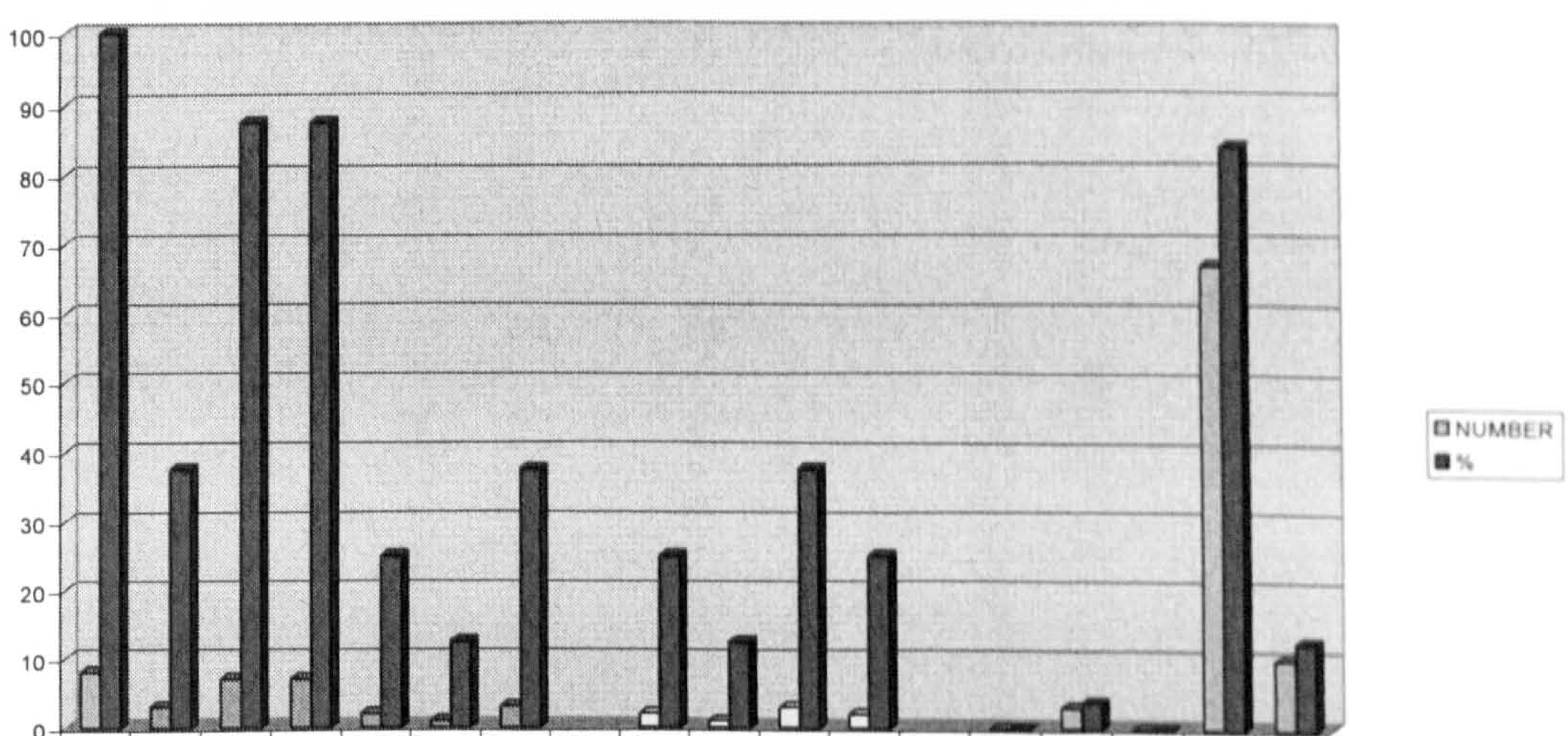
	NO THE FAMILY MEMBERS DO	YES FREEDOM IS GIVEN	CAN PURSUE OUTSIDE CAREER AS	SHOULD WORK OUTSIDE		1	2	3	4	5
NUMBER	18	46	7	9		27	18	0	20	15
%	22.5	57.5	8.75	11.25		33.75	22.5	0	25	18.75

FAMILY MEMBERS ORIENTATION TOWARDS THE FAMILY BUSINESS & PERSONAL PERCEPTIONS FOR JOINING THE FAMILY BUSINESS

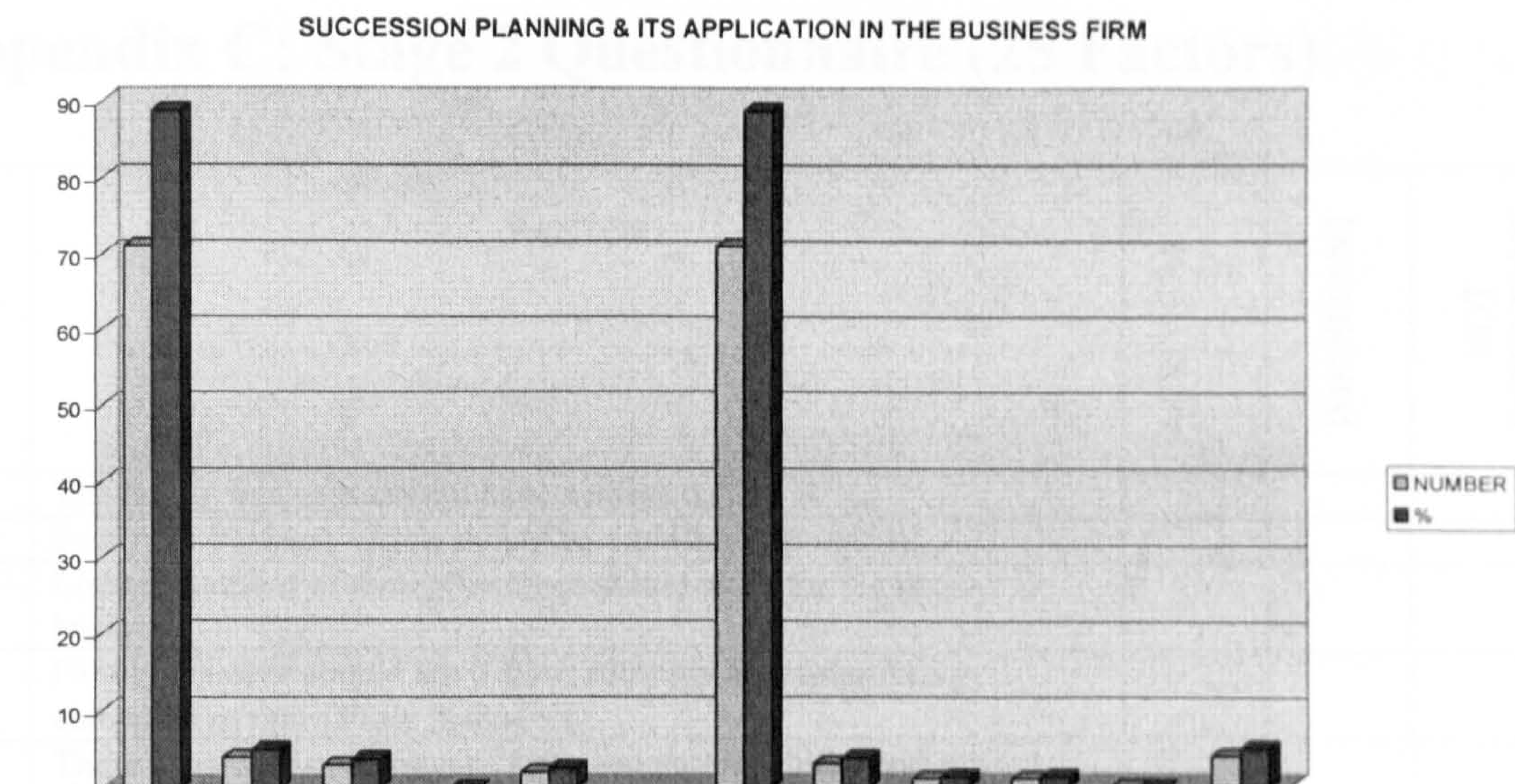


	Founder discussed business	Family rule that members	Founder took the offspings at	Founder groomed offsping with	Founder never motivated	PERSONAL REASONS FOR	The founder member motivated	Easy and planned career	Money and power	To continue the legacy of family in the	No motivation, you were	Responsibilit y of leading the family	You were the only heir or son to
NUMBER	22	6	12	27	13		21	13	4	31	14	11	18
%	27.5	7.5	15	33.75	16.25		26.25	16.25	5	38.75	17.5	13.75	22.5

FAMILY CONSTITUTION & ITS FORMULATION & PERSONAL PERCEPTION OF FAMILY MEMBERS ABOUT ITS APPLICABILITY



	Family vision	Successi on planning	Conflict manage ment	Distributi on of profits	Entry rules of business	Exit rules of business	Decision-making rules in	METHO D OF CONSTI	By the founder member	Collectiv ely by all the	A consulta nt helped	Only the active member	PERSO NAL PERCEP	LEAST IMPORT ANT &	LESS IMPORT ANT &	CANNO T DECIDE	APPLIC ABLE & IMPORT	VERY APPLIC ABLE &
NUMBER	8	3	7	7	2	1	3		2	1	3	2		0	3	0	67	10
%	100	37.5	87.5	87.5	25	12.5	37.5		25	12.5	37.5	25		0	3.75	0	83.75	12.5



	ELDEST SON SUCCEDS BUSINESS	ALL SIBLINGS HAVE	THE MOST ELIGIBLE SIBLING	THE FOUNDER MEMBER	THE FAMILY CONSTITUION DECIDES	SUCCESSION IN THE BUSINESS	Smooth and well planned.	Turbulent and conflicts in the family marked	Minor conflicts, difference of	Major conflict between the founder	Conflicts leading to legal litigation	Collective decision of the family in
NUMBER	71	4	3		2		71	3	1	1	0	4
%	88.75	5	3.75	0	2.5		88.75	3.75	1.25	1.25	0	5

Appendix C: Stage 2 Questionnaire (25 Factors)

SRL. NO.	FACTOR	CRITICAL	IMPORTANT	NOT IMPORTANT
1	The family business should have a mission			
2	Family & business vision should be correlating & unified.			
3	Limited number of family member should work for the family business			
4	Family member should have more authority & responsibility compared to non-family managers.			
5	There should be performance appraisal accountability and reward system for the family managers.			
6	Equal share of profits among members.			
7	Freedom for the family members to choose a career of their option.			
8	Family members not to have a separate business interest apart from the family business.			
9	Eldest son should have the first preference of succession.			
10	Owner should motivate offspring to join the family business by decision.			
11	Applicability of family councils to resolve conflicts in family.			
12	Family commitment to the business			
13	Family firm should have long term survival strategies.			
14	Applicability of family constitution to the family business.			
15	Family constitution should contain rules of profit distribution, and rules of entry & exit, and succession planning.			
16	Family core values & tradition & culture for the family business.			
17	Control of head of the family as core strength of the family.			
18	Family experience in business is the core strength of family business.			
19	Family unity is core strength of family.			
20	Family relation & goodwill is core strength of family.			
21	Financial strength of the family is a core strength of family business			
22	External environmental analysis related to political, social, economy and technology for the family business.			
23	Family needs should be considered while formulating the business plans.			
24	Family participation in the strategic planning process of family business.			
25	Family and business plans to be formulated at the same time.			

Appendix D: "Business" and "Family" Assessment Forms

Section 1: BUSINESS ASSESSMENT

Name of the Firm: _______________ Year of Establishment: ________

Please answer the following, which is closest to a fair assessment of your firm:

1. Does your firm or the group of companies have a written and documented mission and vision statement:

   ☐ Yes ☐ No

2. Please provide the following historical data.

	FACTOR	1998	1899	2000	2001	AVERAGE
1	Growth rate of Firm or Group					
2	Debt-Equity ratio					
3	Profitability					
4	Total assets turnover ratio					
5	EPS					

3 What is the market share of your firm compared to the market leader of industry?

One. 25% of the market leader.

Two. 25-50% of the market leader share.

Three. 50-75% of the market leader share.

Four. Equal to the market leader share.

4 Is your firm focused on a single product or diversified into other businesses.

Focused ☐ Diversified Business ☐

If the firm is diversified into different businesses, please provide the historical data of each business mentioned in question number 3.

5. Please rate the following factor of your operations.

- Technology used in your business operations.

One. Latest technology available in the market

Two. 2 years old technology.

Three. 2-4 years old technology.

Four. 4-8 years old technology.

Five. 8 years old technology.

- Quality protocols of your firm.

One. No. established quality protocol.

Two. ISO 9000 series, European quality Ltd., or other quality certifications.

Three. In-house developed quality standard.

- Operation of your firm.

One. Global

Two. Local market (Middle East).

- Social Responsibilities undertaken by firm.

One. Saudization, community development, sponsoring education, etc.

Two. No social responsibilities.

- Customer service and support.

One. Online customer support and service / less than 4 hours of response to customer query or complaint.

Two. Response time of 4 hours – 12 hours.

Three. Response time of 12 – 24 hours.

Four. Response time of 24 – 36 hours.

Five. Response time of 36 hours.

6. How would you rate the supplier relation of your firm?

One. Well established mechanism of vendor rating, selection and ERP system.

Two. Dependent only on a few selected vendors and no vendor assessment and rating.

Three. Dependent only on a single vendor, who is capable of forward integration in your business?

Four. Disorganized and random vendor selection.

7. Rate the following, which you perceive as core strengths of your firm.

		1	2	3	4	5
a	Marketing					
b	Finance					
c	Distribution Channel					
d	Brand image of the product					
e	Customer loyalty					
f	Production Plant efficiency					
g	Management leadership					

8. Please rate the following factors of organization culture as perceived by you.

		1	2	3	4	5
a	Coordination and team spirit					
b	Employee loyalty					
c	Cross-cultural management					
d	Communication in organization					
e	Reward mechanism					
f	Employee participation in management					

9. Which of the following environment factors affect your firm and please rate the ability of your firm to counter them?

FACTOR		Affect		Ability to Counter				
		+ re	-re	1	2	3	4	5
a	Political							
b	Economical							
c	Social							
d	Competitor							
e	Substitute Products							

10. How would you describe the training of Development Program conducted at your firm for the employees and management?

One. Organized training and development for change management.

Two. Occasional training provided if need arise.

Three. No training program.

Section 2: FAMILY AND PERSONAL FACTORS ASSESSMENT

1. How would you describe the family vision for the business?

   One. To maximize the shareholders equity.

   Two. Business is a family identity.

   Three. Business only to serve the family needs.

   Four. Family business is a responsibility and family tradition.

   Five. Family business is a source of income and career for the family members.

   Six. No vision.

2. How would you describe your family participation in the business?

   One. Investment and ownership only.

   Two. Family council and one nominee on management, but only passive participant.

   Three. Works in the family business as an employee or a functional manager only.

   Four. Only as the head or chairman of the firm and a facilitator for strategic planning.

   Five. Complete strategic planner and involved actively in the business operation.

3. How many members of the family are actively participating in the family business?

   One. Sole proprietorship or single member.

   Two. Many members of family have stake in business but only 2-4 work for it.

   Three. Many members but only 4-8 work for it.

   Four. Many members but only 8-12 work for it.

   Five. All family members work for the business.

Six. No family member works for the business.

4. Which generation of the family is in control of the firm?

One. 1st generation
Two. 2nd generation
Three. 3rd generation
Four. More than 3rd generation

5. Which of the following do you perceive as core strengths of the family and rate it?

		1	2	3	4	5
a	Family unity					
b	Family reputation and goodwill					
c	Family guiding rules or a family constitution					
d	Family values					
e	Business education & training of family members					
f	Grooming of next generation to take control of family business					

6. How would you describe the contents of your family constitution:

One. No family constitution.

Two. Family constitution containing succession planning rules, business entry & exit rules, conflict management and profit sharing rules.

Three. Family constitution with minimal representation of succession and conflict management.

Four. Family constitution with only profit sharing rules.

7. Please rate the following family inter-personal dynamics.

		1	2	3	4	5
a	Relation with head of the family or founder member					
b	Relation with brothers & other siblings/cousin consortium					
c	Family member freedom to select a career of their choice, outside family business					
d	Profit sharing satisfaction					
e	Family leadership satisfaction					

8. How would you describe the succession planning at your firm?

One. Well defined succession planning system or family tradition. The founder declaring the succession in advance, etc.

Two. Founder selects a heir from the children based on his perceived ability of children.

Three. Heir selected by consensus of all family members.

Four. No established heir selection mechanism.

9. Has there been a split in the business, due to a conflict in the family.

☐ Yes ☐ No

How would you describe the conflict management mechanism in the family?

One. Family constitution resolves the conflict.

Two. Elder members of the family or the founder resolve it.

Three. Family council resolves the conflict.

Four. By discussion among the agreed parties.

Five. No established conflict management mechanism or outside intervention is sought.

10. Rate following factors which describe the influence of family on the business decision making.

		1	2	3	4	5
a	Family needs are always highest priority while formulating business decisions.					
b	Collective family decisions for the business or by consensus					
c	Family council plans the business continuity plans					
d	Family members are given preferences over non-family employees in the firm					
e	Retirement planning					
f	Estate planning					

Appendix E: Scoring methodology for business, family and personal assessment

Section 1: RATING SCORES FOR BUSINESS ASSESSMENT

QUESTION	CHOICE	RATING SCORE
Q 1	Yes	5 Points
Q 2	1) Growth rate Industry Ltd.	0 Point
	Growth rate Industry Ltd.	1 Point
	Debt equity ratio	
	2:1	0.75 Points
	1:1	1 Point
	0.5:1	1 Point
	3:1	0.50 Points
	3) Profitability ratio	
	4) Total assets turnover ration	
	EPS	0.25 Points
	0.10	
	0.10-0.20	0.50 Points
	0.20-0.25	0.75 Points
	0.25	1 Point
Q 3	(a)	1.25 Points

	(b)	2.50 Points
	(c)	3.75 Points
	(d)	5 Points
Q 4	Focused	5Points
	Diversified	Average score of total performance points of Question 3 for each firm.
Q 5	<u>Technology</u>	
	(a)	1.0
	(b)	0.75
	(c)	0.5
	(d)	0.25
	(e)	0
	<u>Quality</u>	
	(a)	0
	(b)	1.0
	©	0.50
	<u>Operation</u>	
	(a)	1.0
	(b)	0.50
	<u>Customer Service</u>	
	(a)	1.0
	(b)	0.75
	(c)	0.5
	(d)	0.25
	(e)	0
Q 6	Response	
	(a)	5.0 Points
	(b)	**Points**

	(c)	1.25 Points
	(d)	0
Q 7	Average Score = (a + b + c + d + e + f + g)/7	
Q 8	Average Score = (a + b + c + d + e + f)/6	
Q 9	Average Score = (a + b + c + d + e)/5	
Q 10	(a)	5Points
	(b)	2.5 Points
	(c)	0 Points.

Section 2: RATING SCORES FOR FAMILY & PERSONAL ASSESSMENT

QUESTION	CHOICE	RATING SCORE
Q 1	a	5.0 Points
	b	4.0 Points
	c	3.0 Points
	d	2.0 Points
	e	1.0 Point
	f	0
Q 2	a	0
	b	1.25 Points
	c	2.50 Points
	d	3.75 Points
	e	5.0 Points
Q 3	a	5.0 Points
	b	4.0 Points
	c	3.0Points
	d	1.0 Point
	e	1.0 Point
	f	0
Q 4	a	1,25 Points

	b		2.50 Points
	c		3.75 Points
	d		5.0 Points
Q 5		Average Score =	(a + b + c + d + e + f)/6
Q 6	a		0
	b		5.0 Points
	c		2.5 Points
	d		1.25 Points
Q 5		Average Score =	(a + b + c + d + e)/5
Q 8	a		5.0 Points
	b		4.0Points
	c		1.0 Points
	d		0
Q 9	I	yes	1 Point
		no	0
	II	a	2.0 Points
		b	3.0Points
		c	0.0 Points
		d	1.0 Point
		e	0
TOTAL SCORE	I + II		
Q 10	Average Score =		(a + b + c + d + e + f)/6

Total points for Business Assessment = 50

Total points for Family Assessment = 50

Analysis:

1. If Family score > 30 & Business score < 30,

Total => 60, then the firm is Family oriented.

2. If Family score < 30 & Business score > 30,

Total = > 60, then the firm is Business oriented.

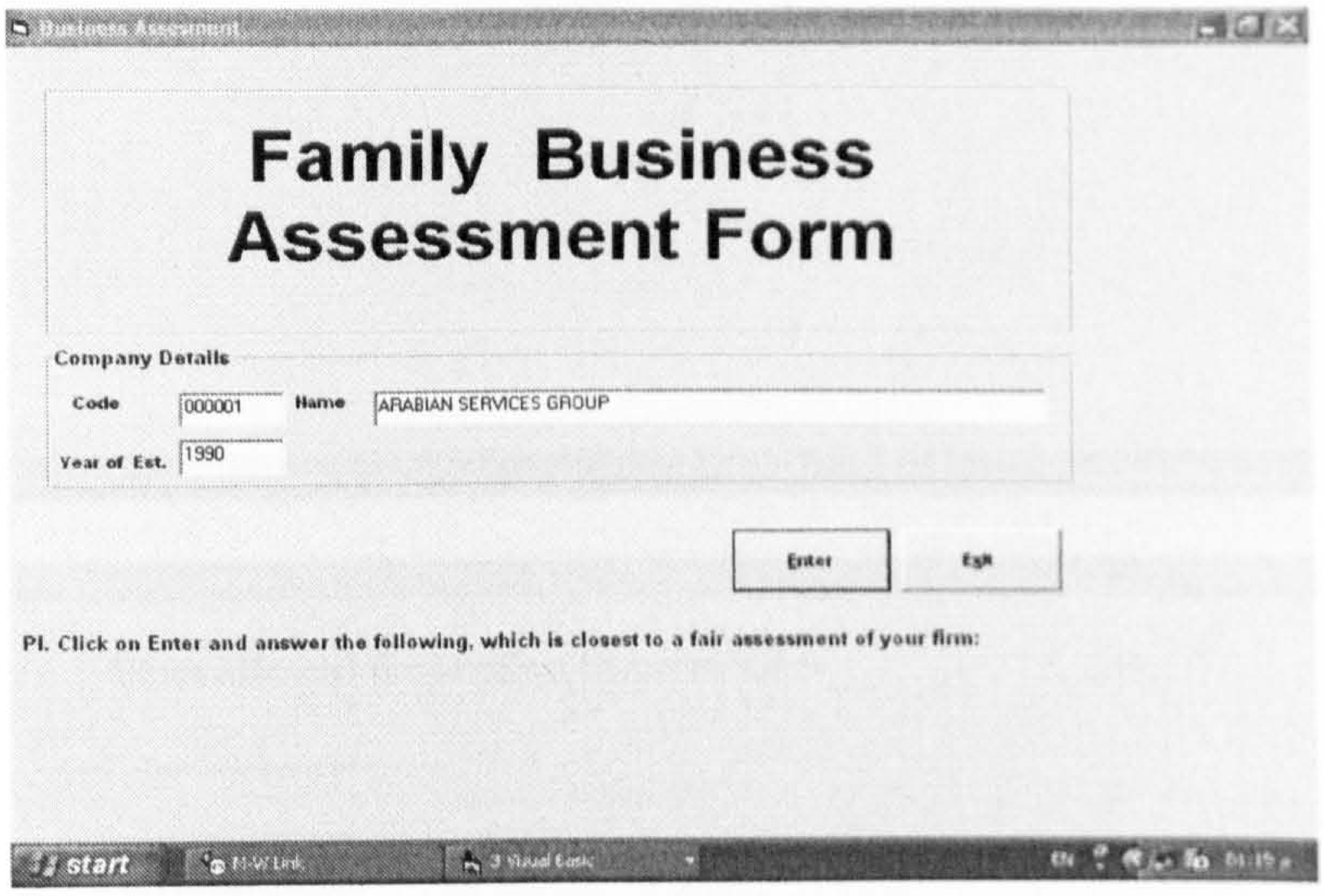
3. If both scores are equal, then it is a Family-Business oriented.

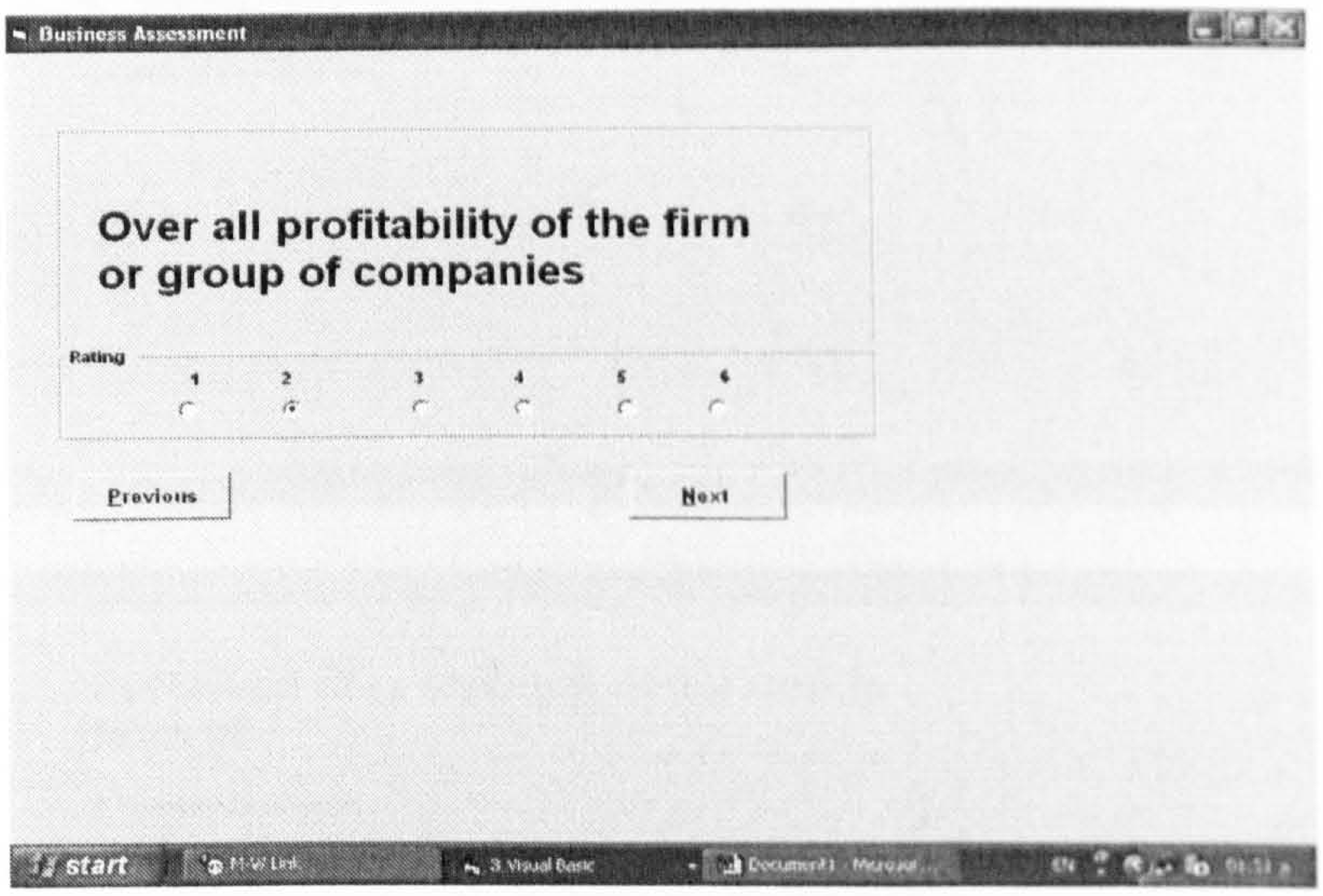
Section 3: Assessment score indications:

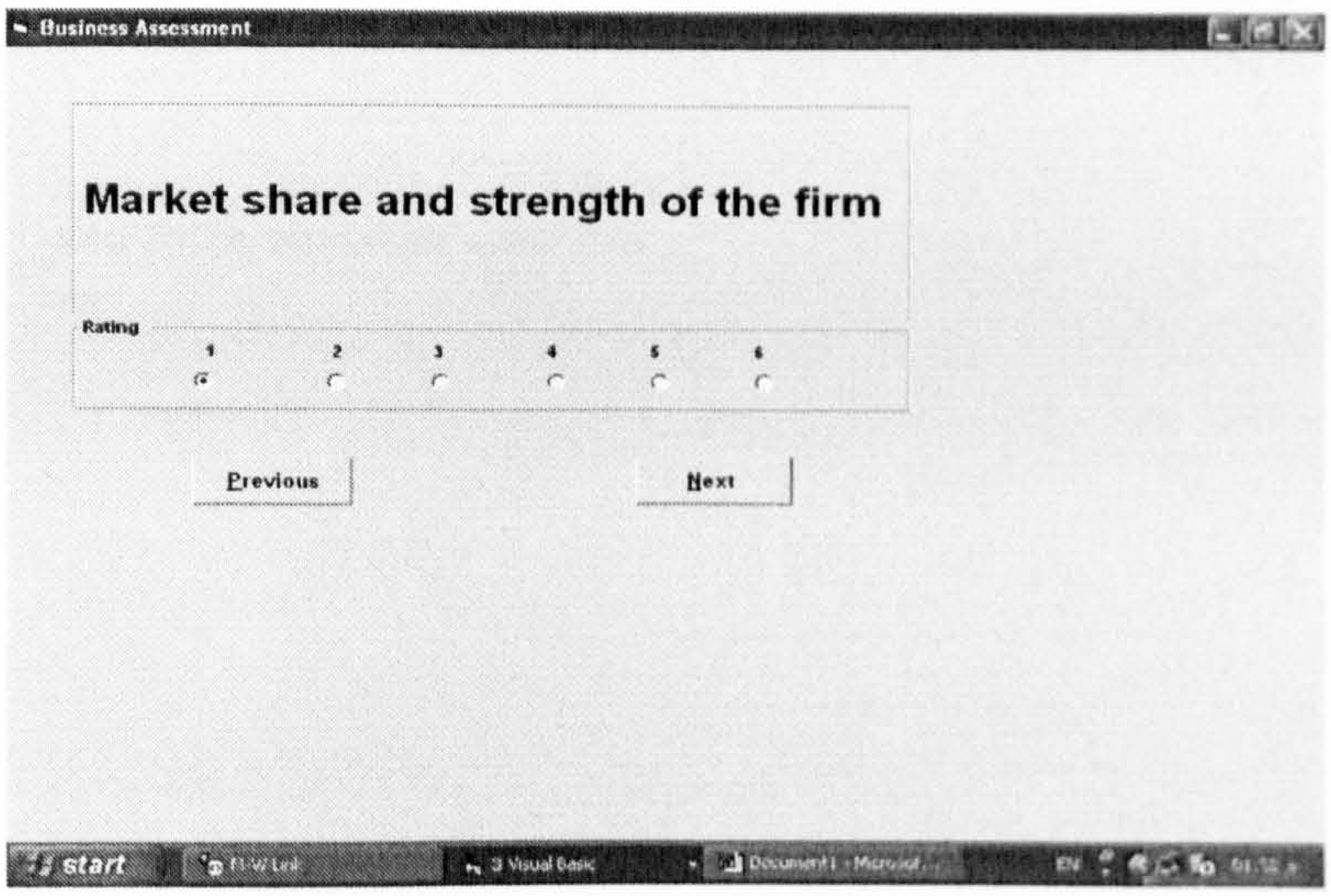
SCORE	FAMILY	ANALYSIS
> 40		Excellent family plan and unity
30 – 40		Good plan but lacks in few areas
< 30		Poor family plan and participation in business

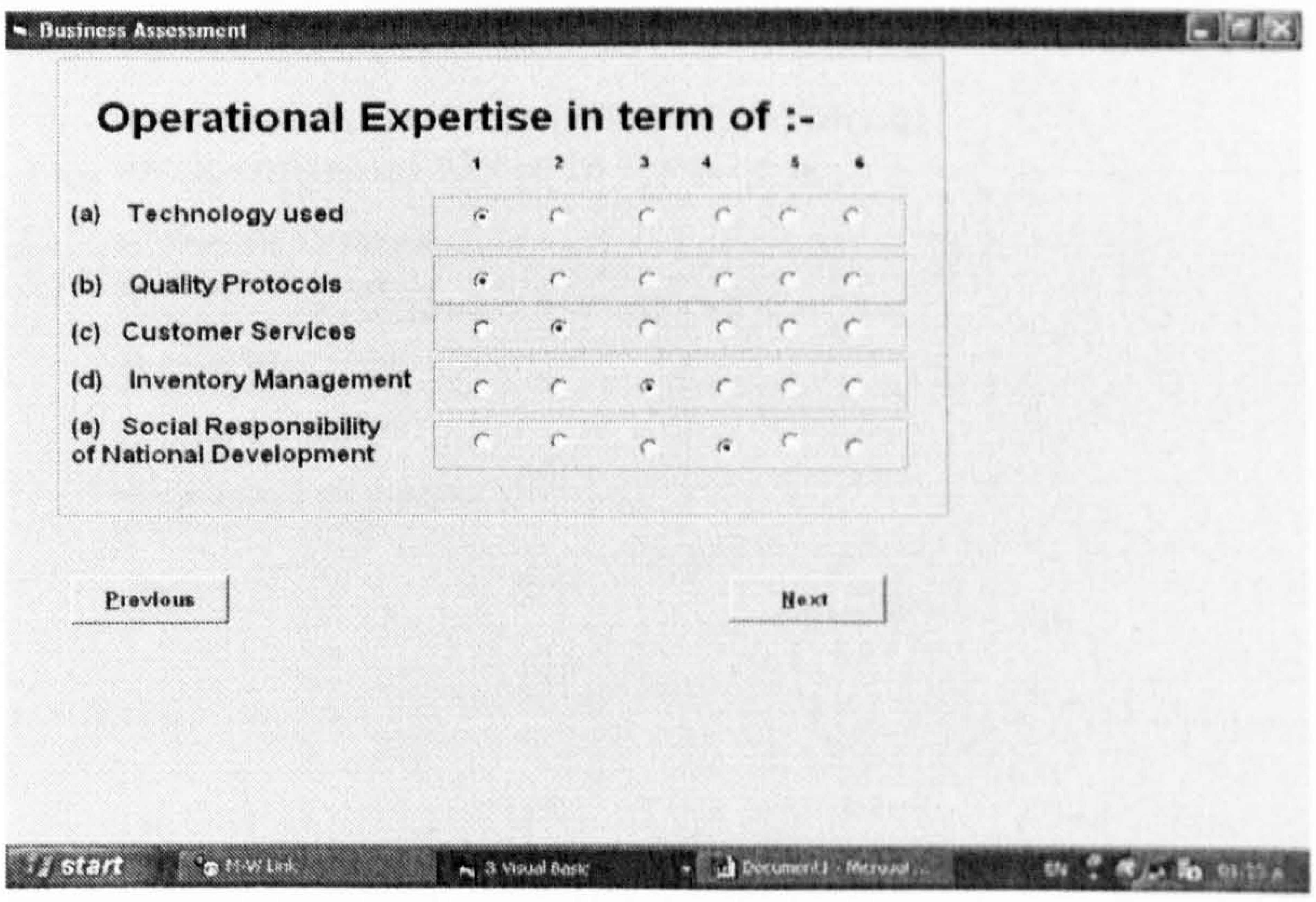
SCORE	BUSINESS	ASSESSMENT
> 40		Excellent business strategic planning
30 – 40		Good strategic planning but lacks in family inclusion and planning
< 30		Very poor form of business planning

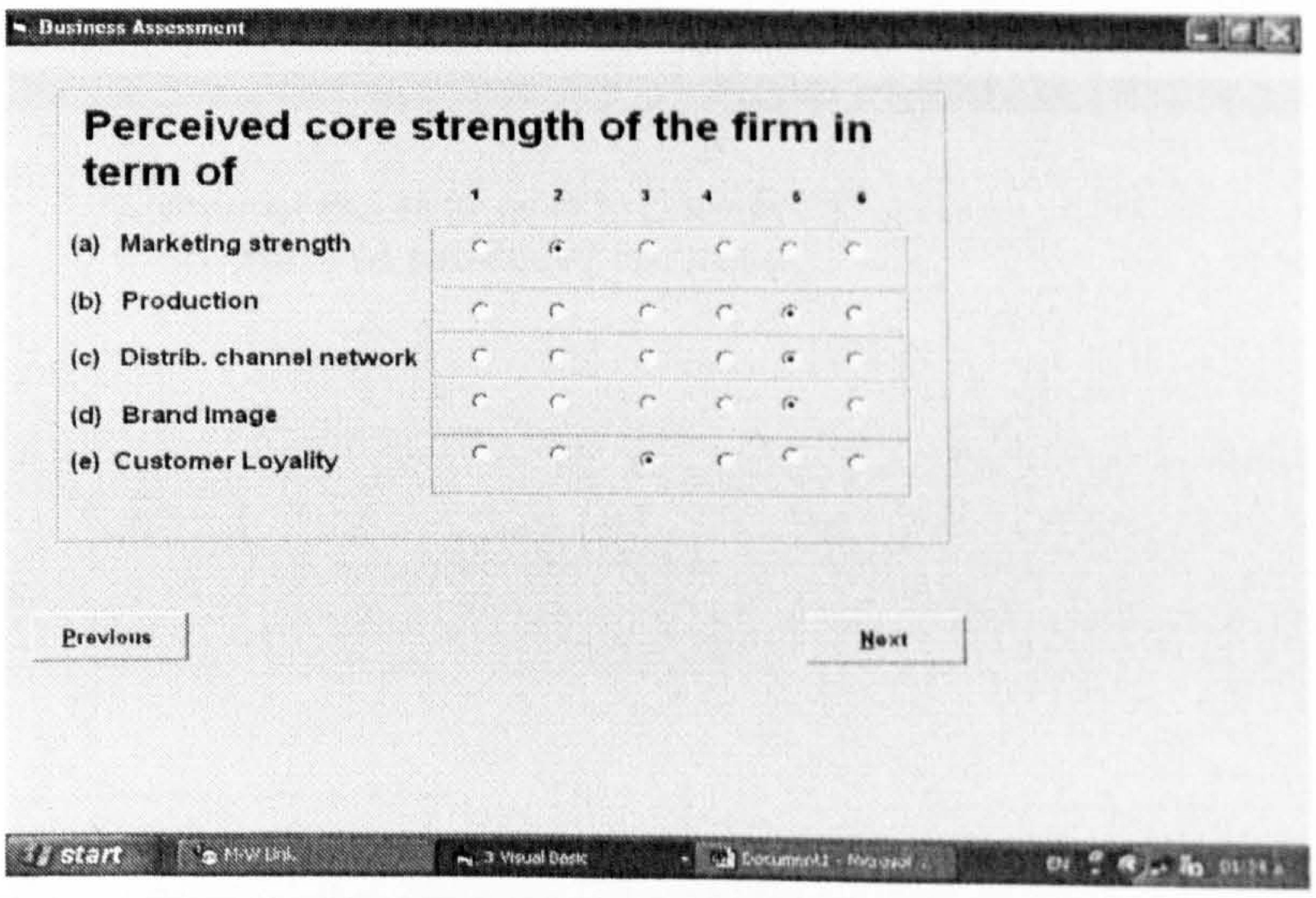
Appendix F: Screen shots from dedicated data capture and analysis software

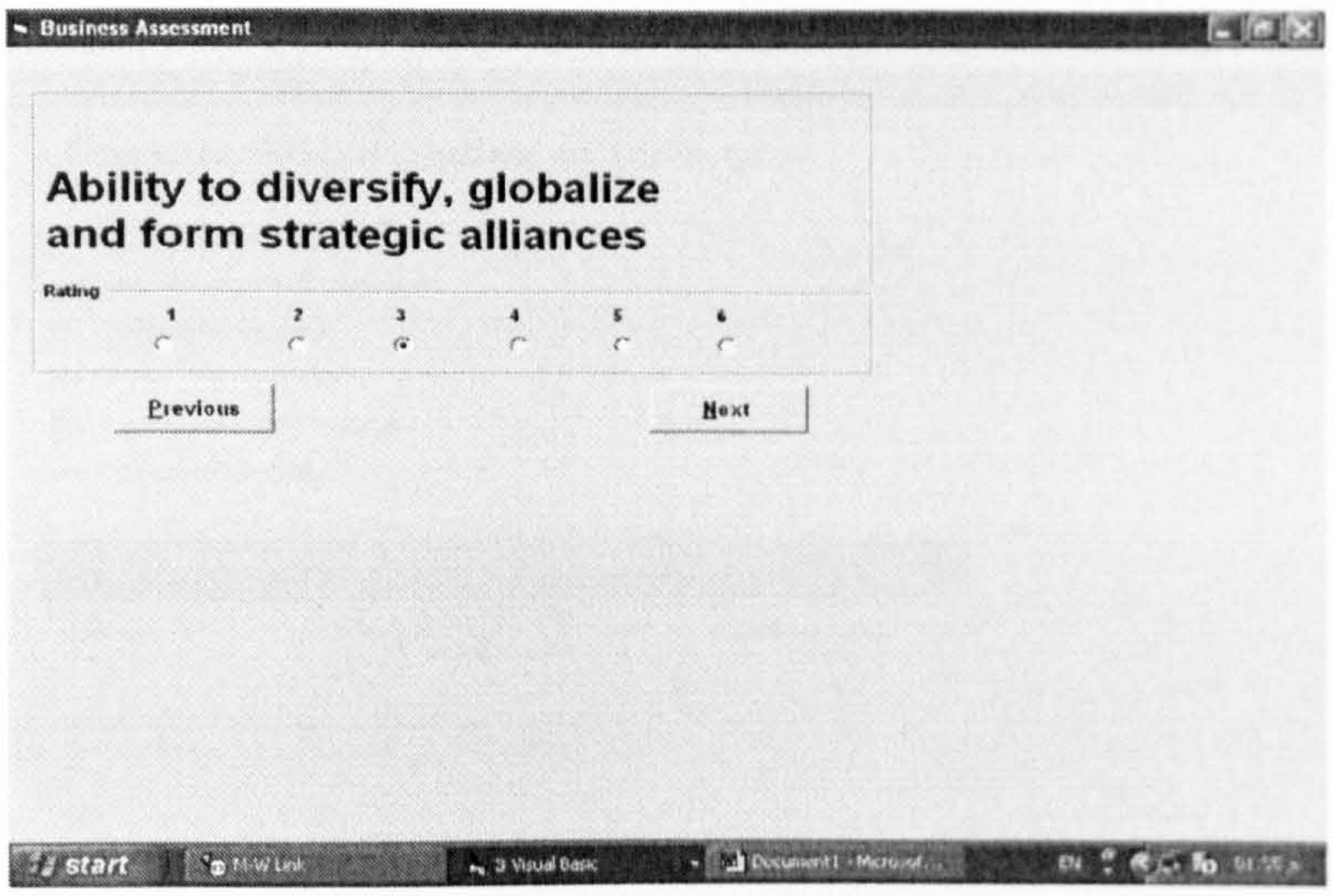


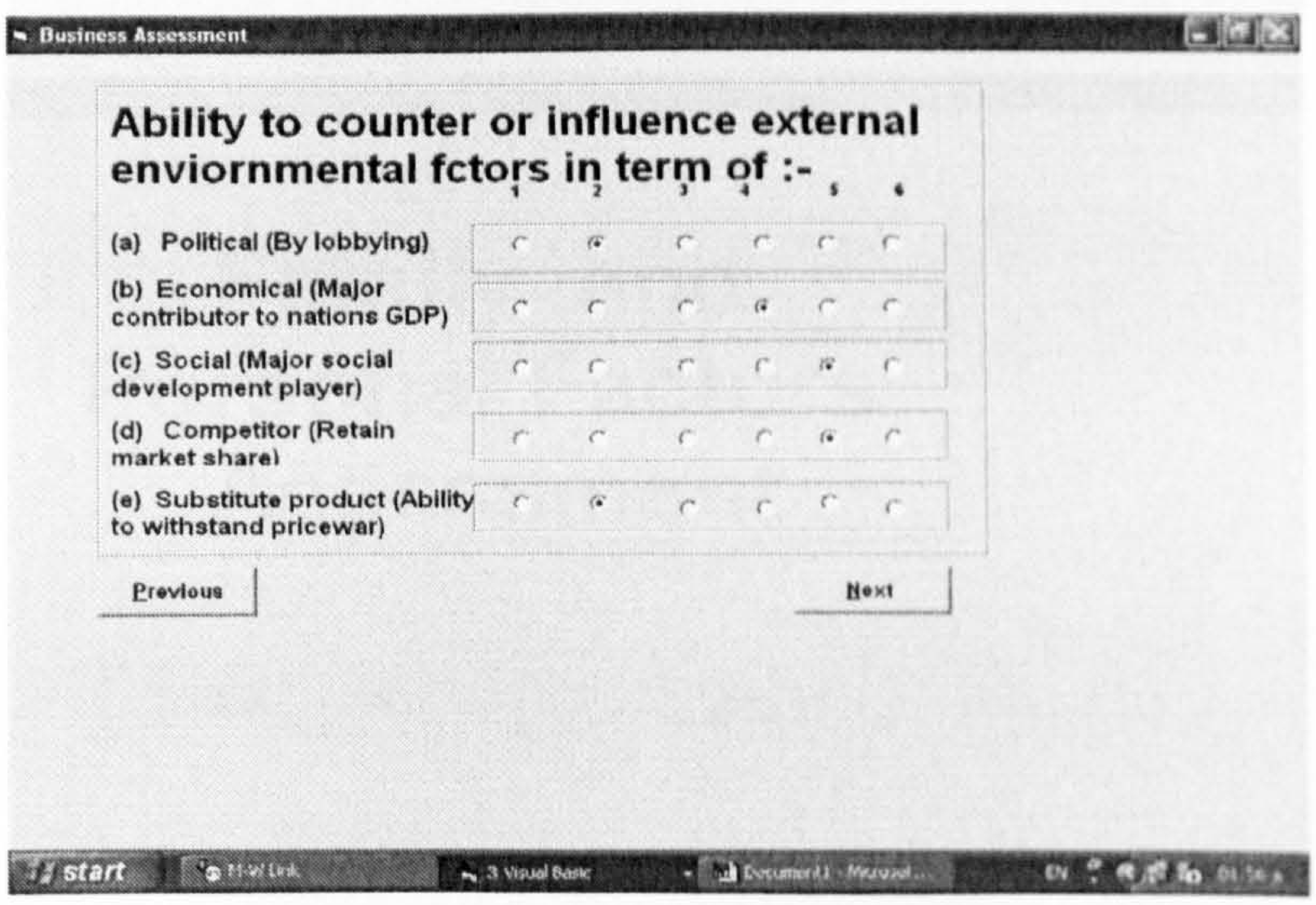


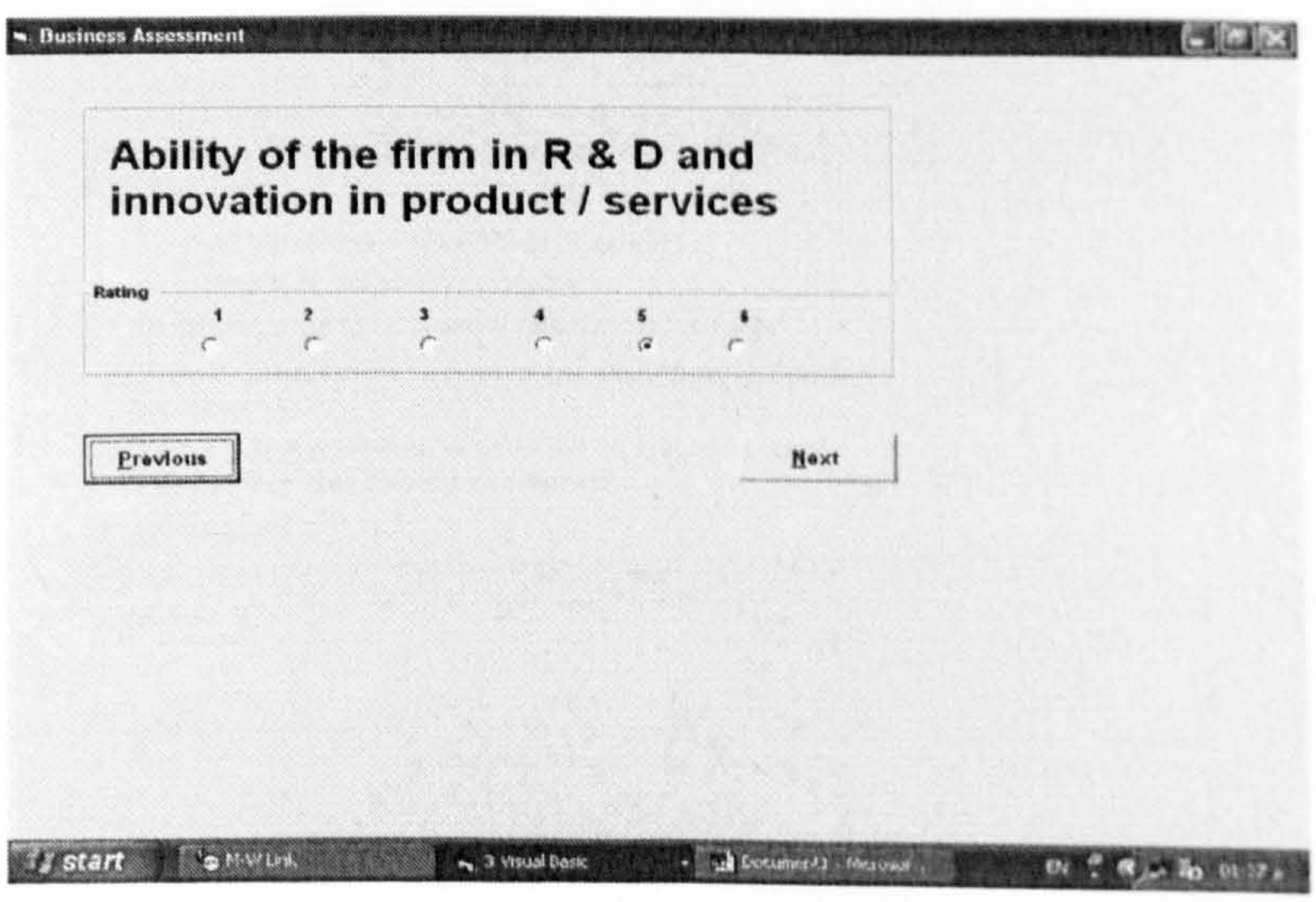

Business Assessment
Market share and strength of the firm
Rating
1 2 3 4 5 6
Previous
Next
start

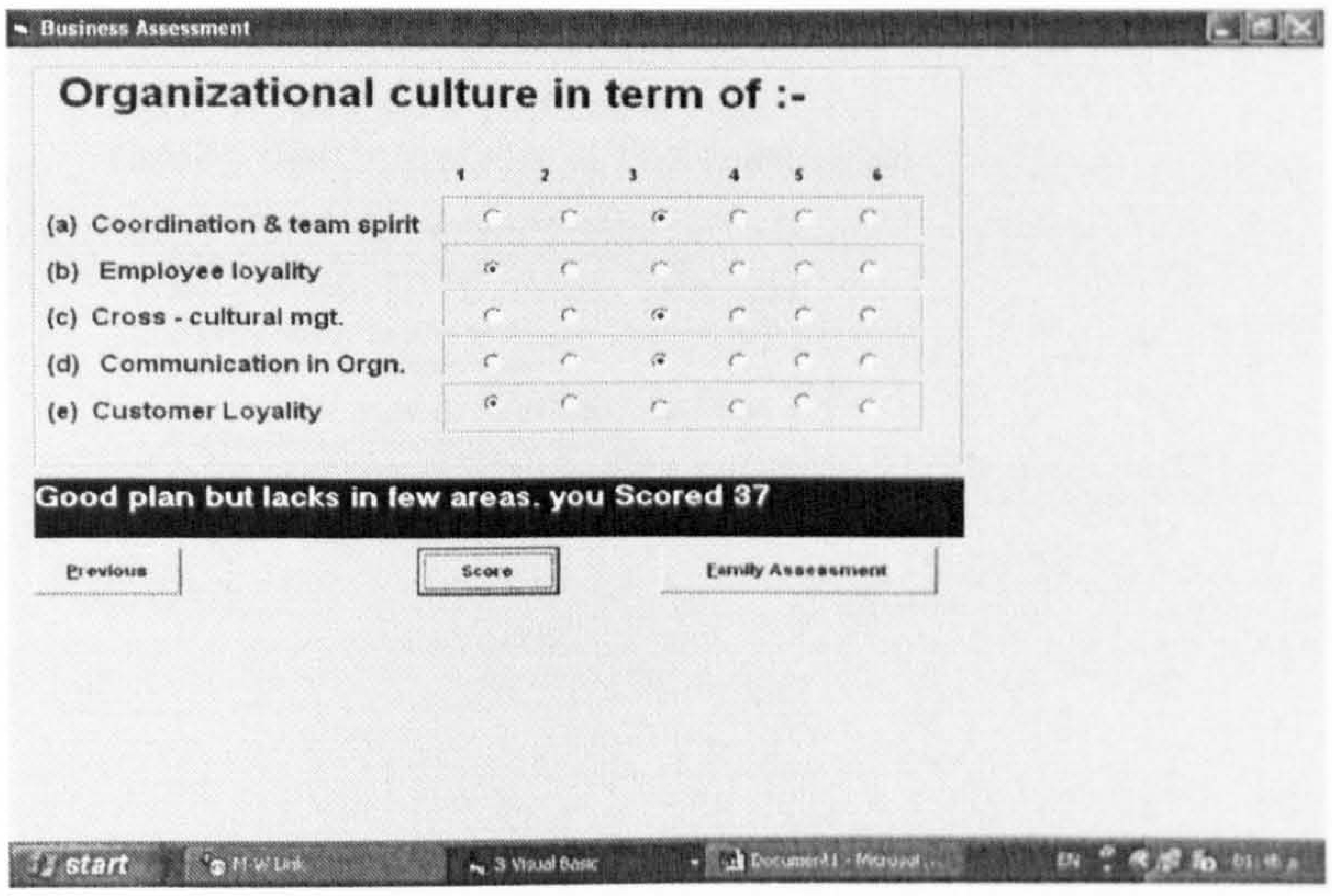

Business Assessment
Operational Expertise in term of :-
1 2 3 4 5 6
(a) Technology used
(b) Quality Protocols
(c) Customer Services
(d) Inventory Management
(e) Social Responsibility of National Development
Previous
Next
start

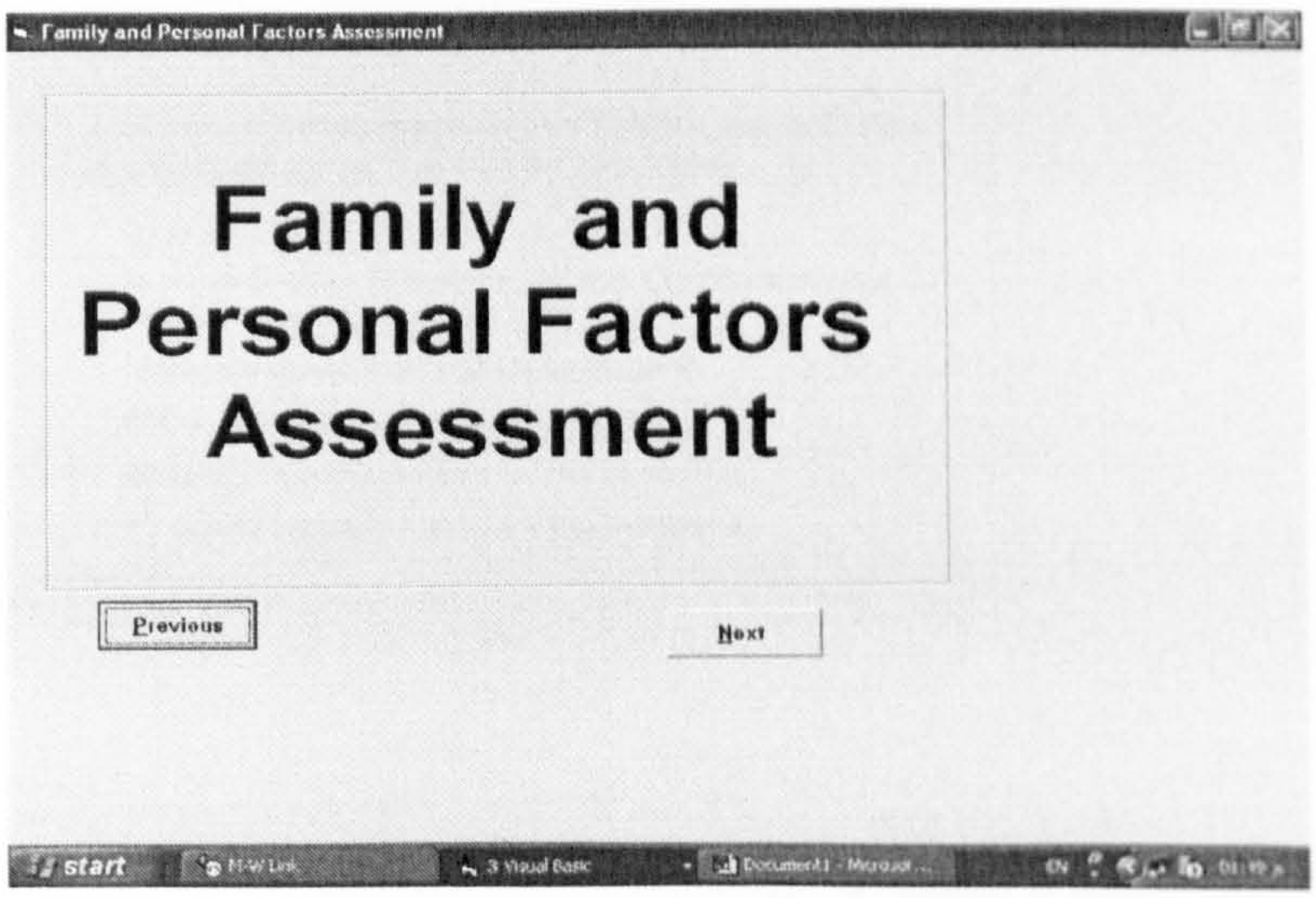

Business Assessment
Perceived core strength of the firm in term of
1 2 3 4 5 6
(a) Marketing strength
(b) Production
(c) Distrib. channel network
(d) Brand Image
(e) Customer Loyality
Previous
Next
start

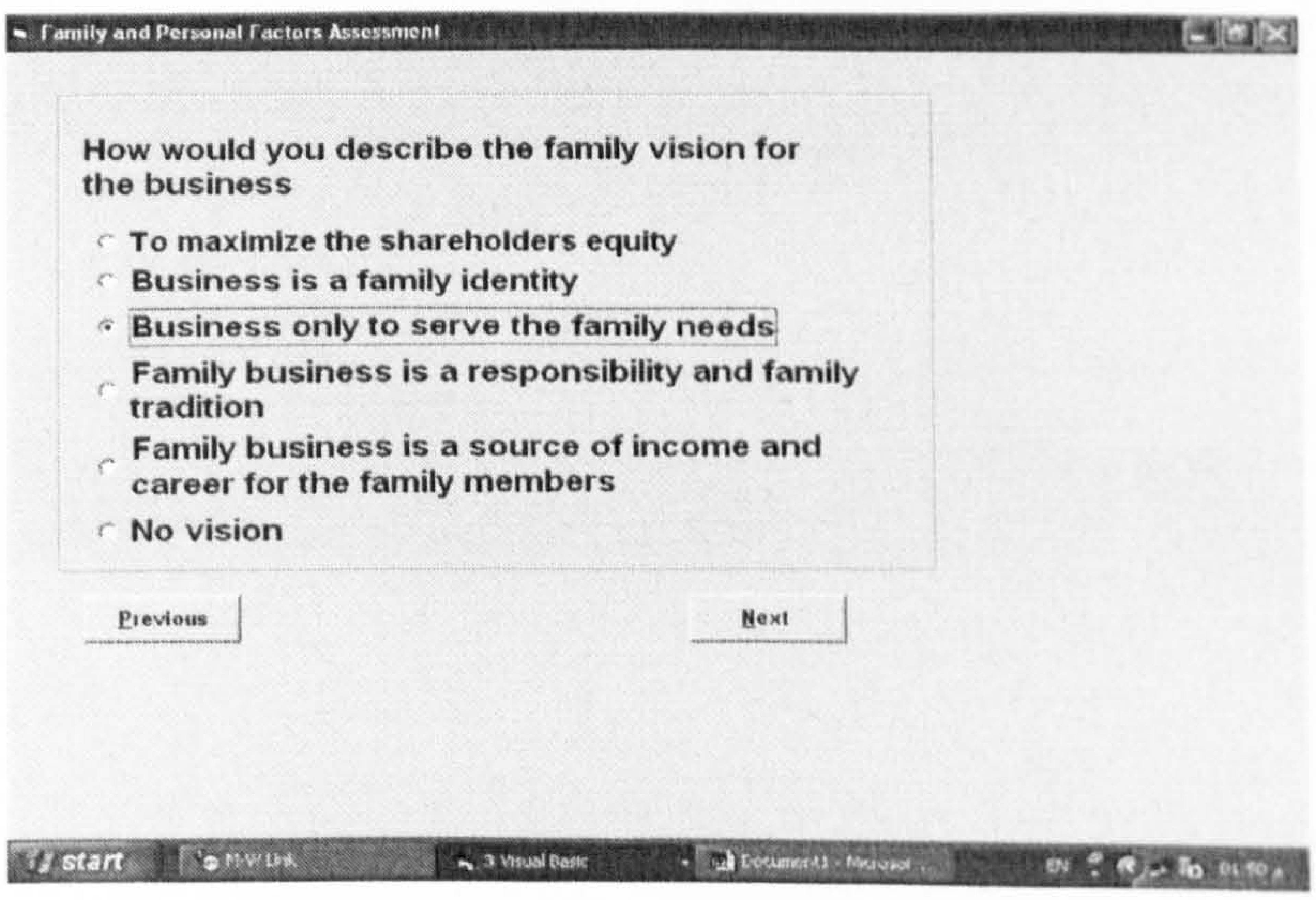

Business Assessment
Ability to diversify, globalize and form strategic alliances
Rating
1 2 3 4 5 6
Previous
Next
start

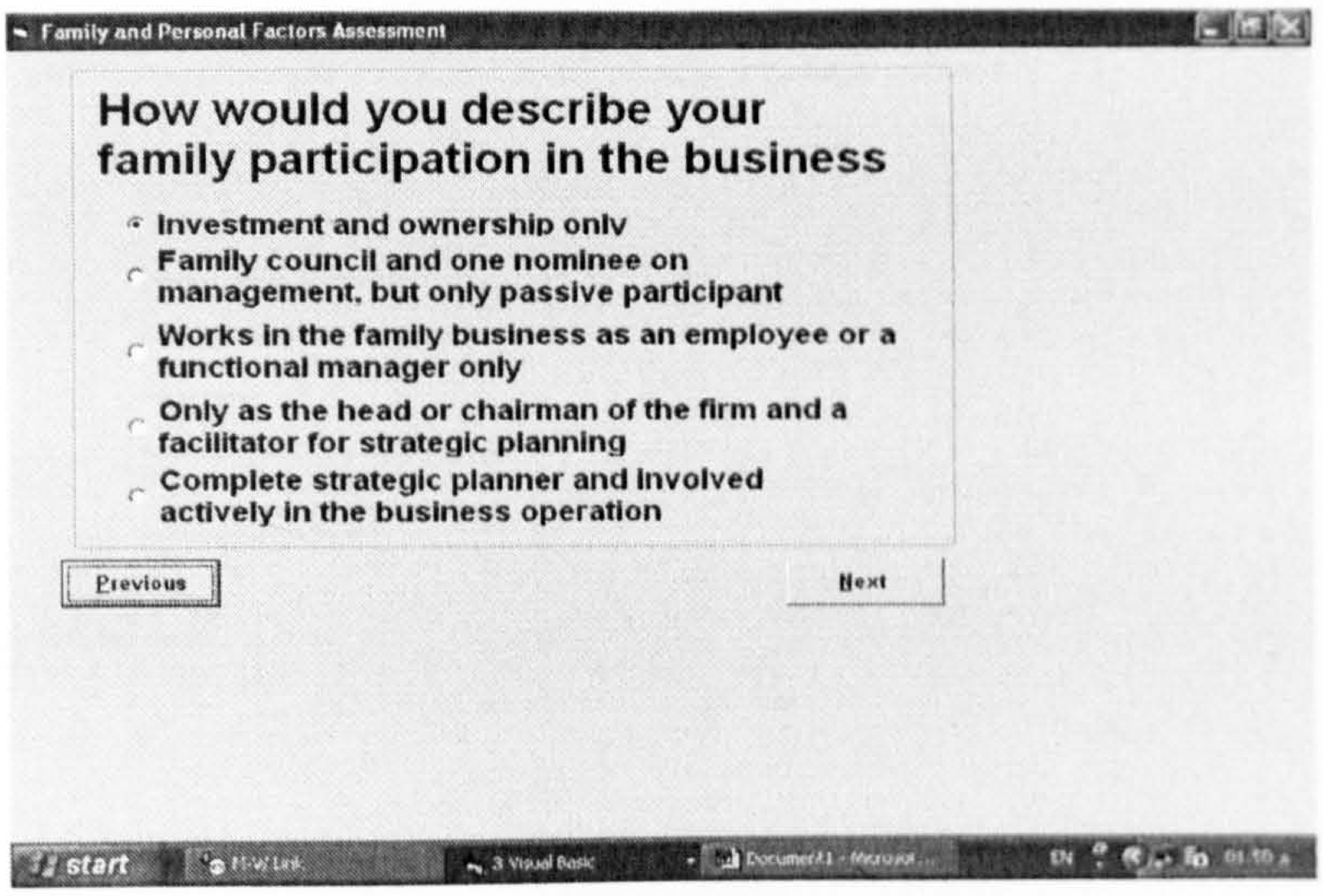

Business Assessment
Ability to counter or influence external enviornmental fctors in term of :-
1 2 3 4 5 6
(a) Political (By lobbying)
(b) Economical (Major contributor to nations GDP)
(c) Social (Major social development player)
(d) Competitor (Retain market share)
(e) Substitute product (Ability to withstand pricewar)
Previous
Next
start

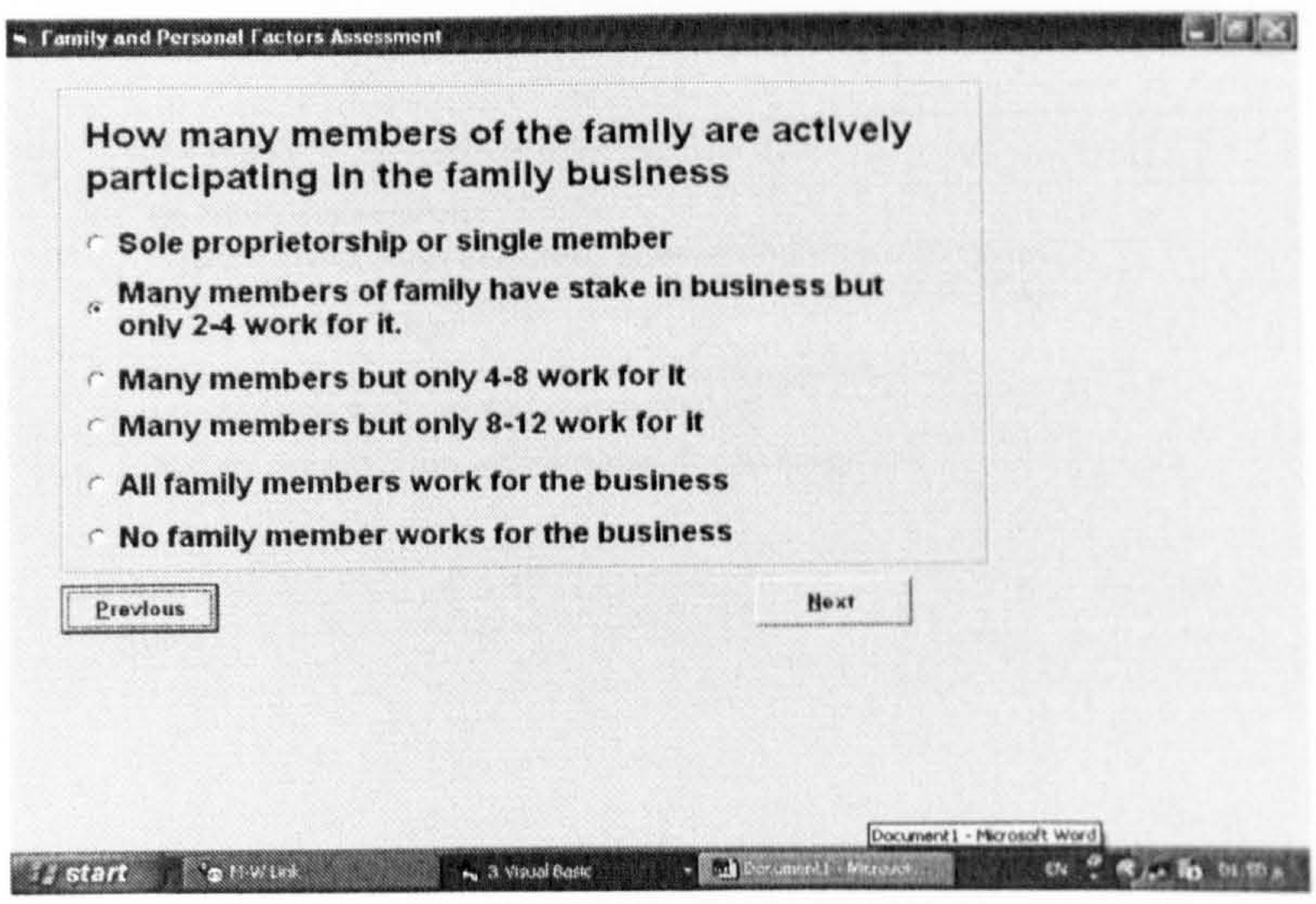

Business Assessment
Ability of the firm in R & D and innovation in product / services
Rating
1 2 3 4 5 6
Previous
Next
start

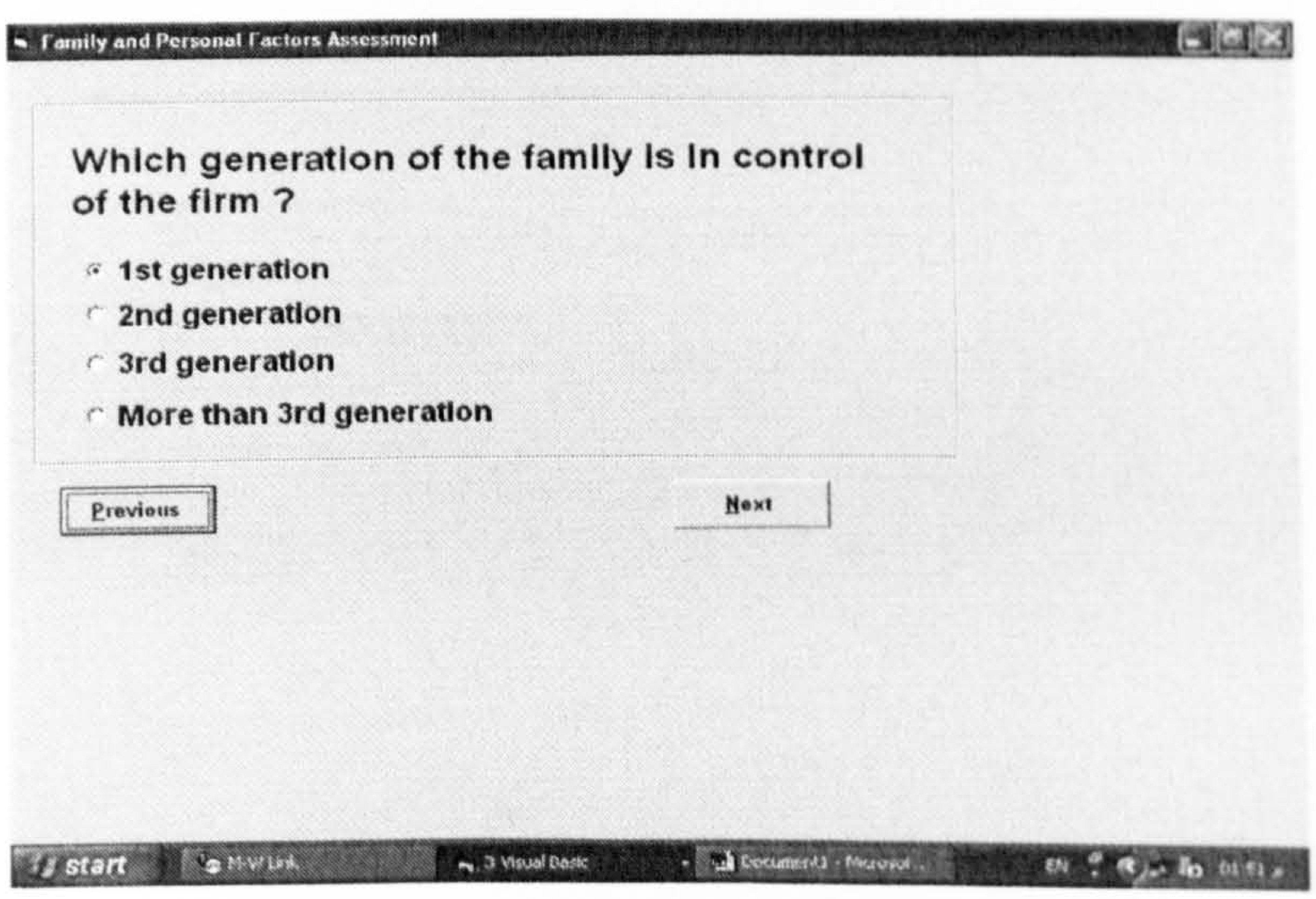

Business Assessment
Organizational culture in term of :-
1 2 3 4 5 6
(a) Coordination & team spirit
(b) Employee loyality
(c) Cross - cultural mgt.
(d) Communication in Orgn.
(e) Customer Loyality
Good plan but lacks in few areas. you Scored 37
Previous
Score
Family Assessment
start

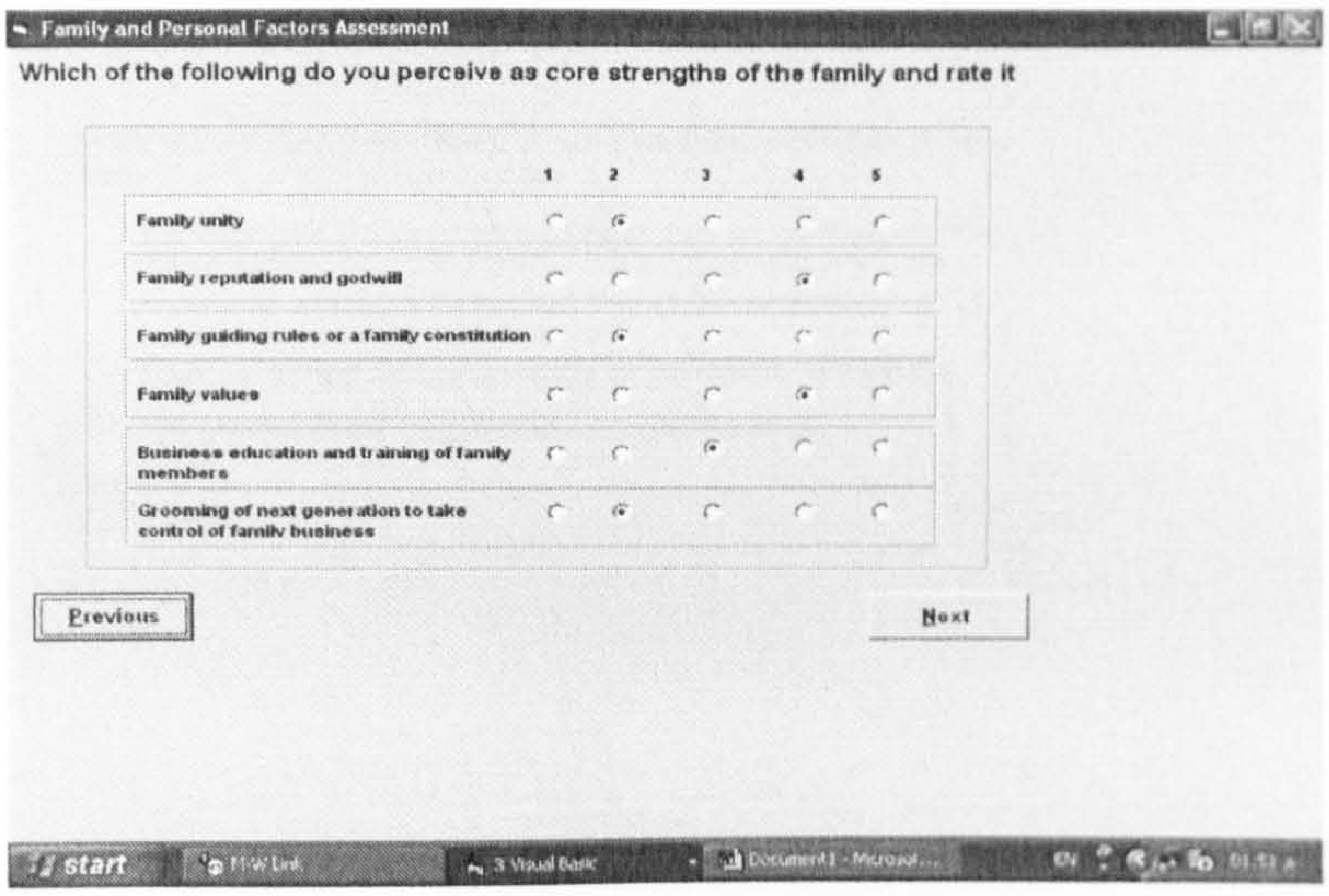

Family and Personal Factors Assessment
Family and Personal Factors Assessment
Previous
Next
start

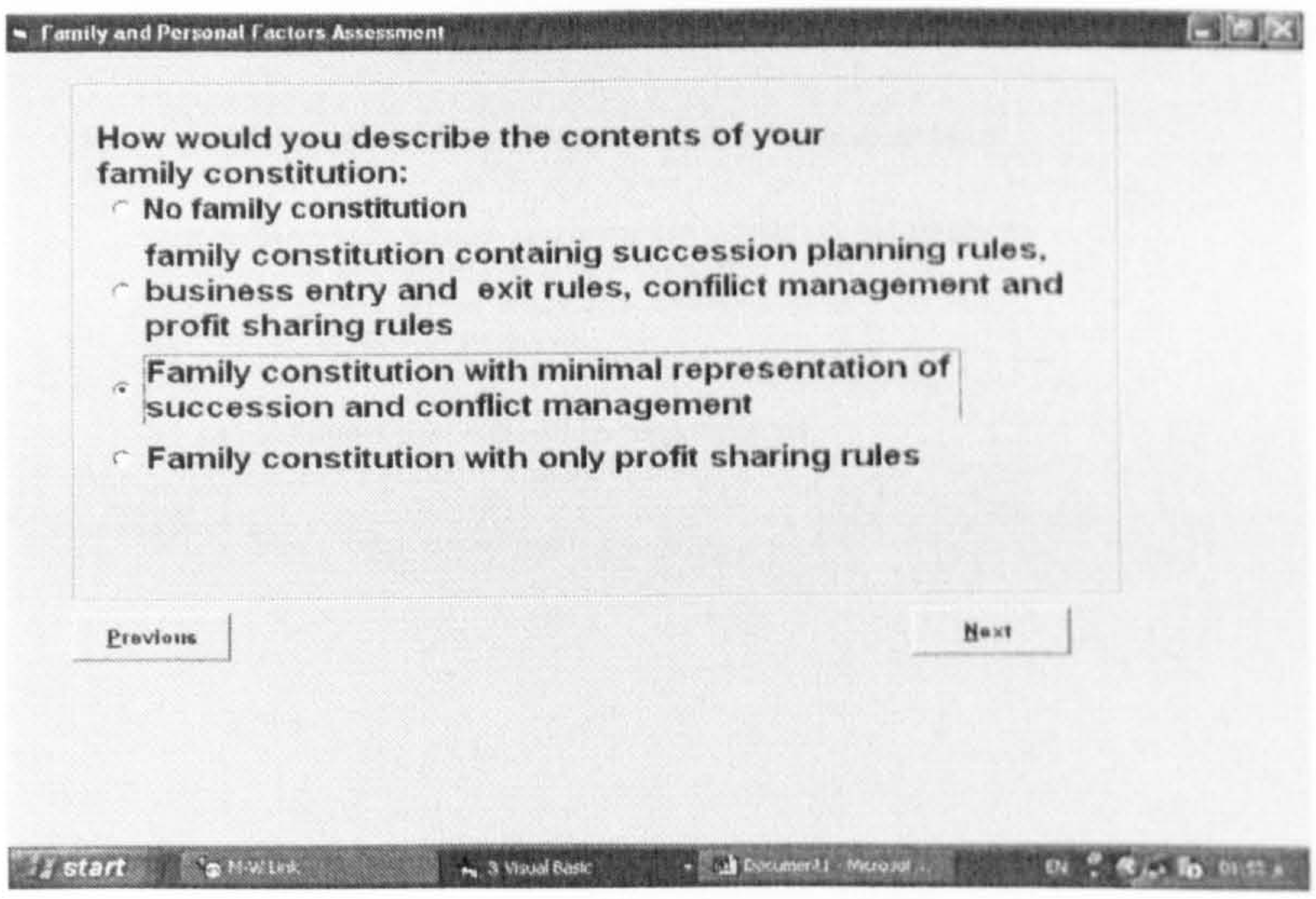

Family and Personal Factors Assessment
How would you describe the family vision for the business
To maximize the shareholders equity
Business is a family identity
Business only to serve the family needs
Family business is a responsibility and family tradition
Family business is a source of income and career for the family members
No vision
Previous
Next
start

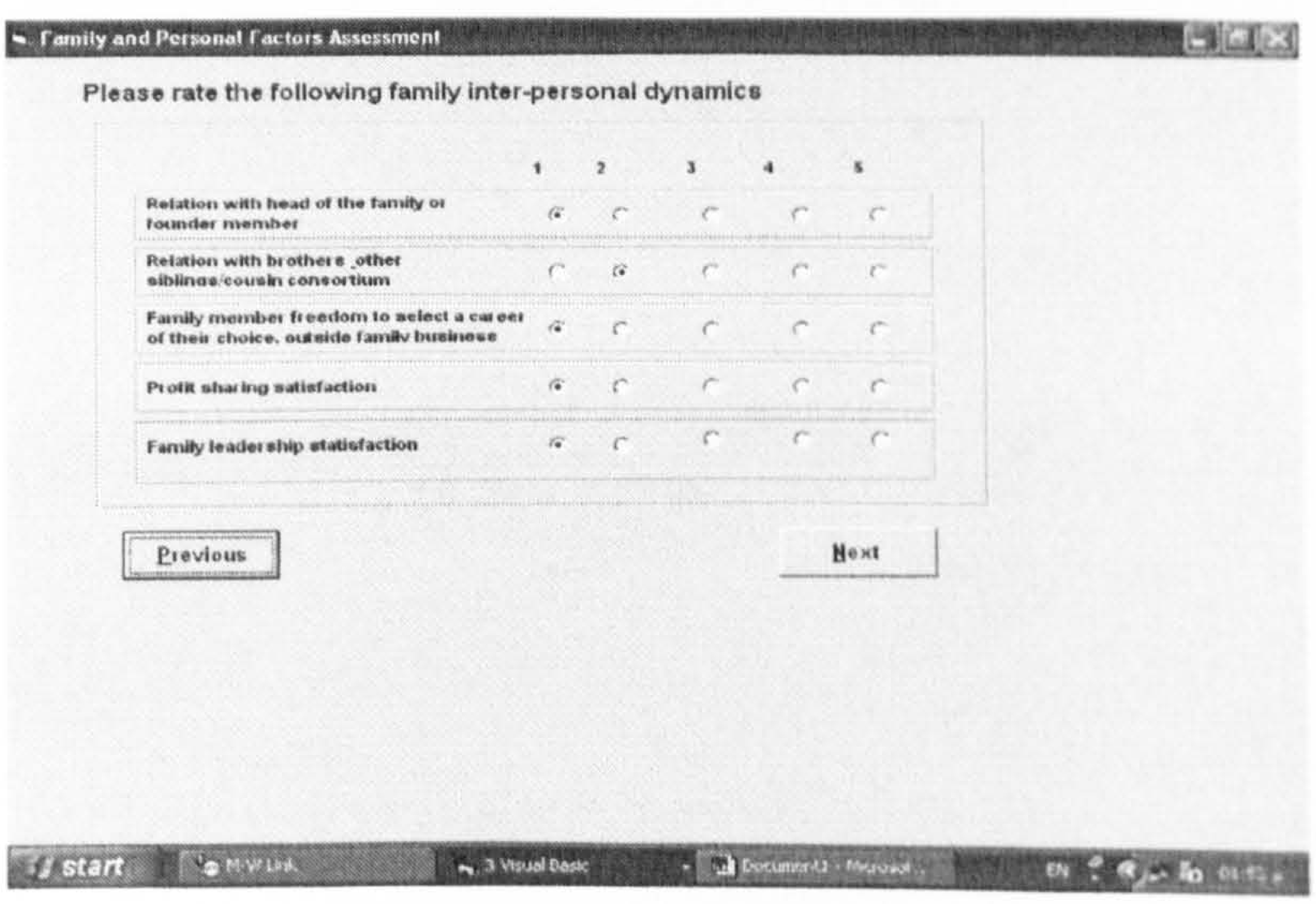

Family and Personal Factors Assessment
How would you describe your family participation in the business
Investment and ownership only
Family council and one nominee on management, but only passive participant
Works in the family business as an employee or a functional manager only
Only as the head or chairman of the firm and a facilitator for strategic planning
Complete strategic planner and involved actively in the business operation
Previous
Next
start

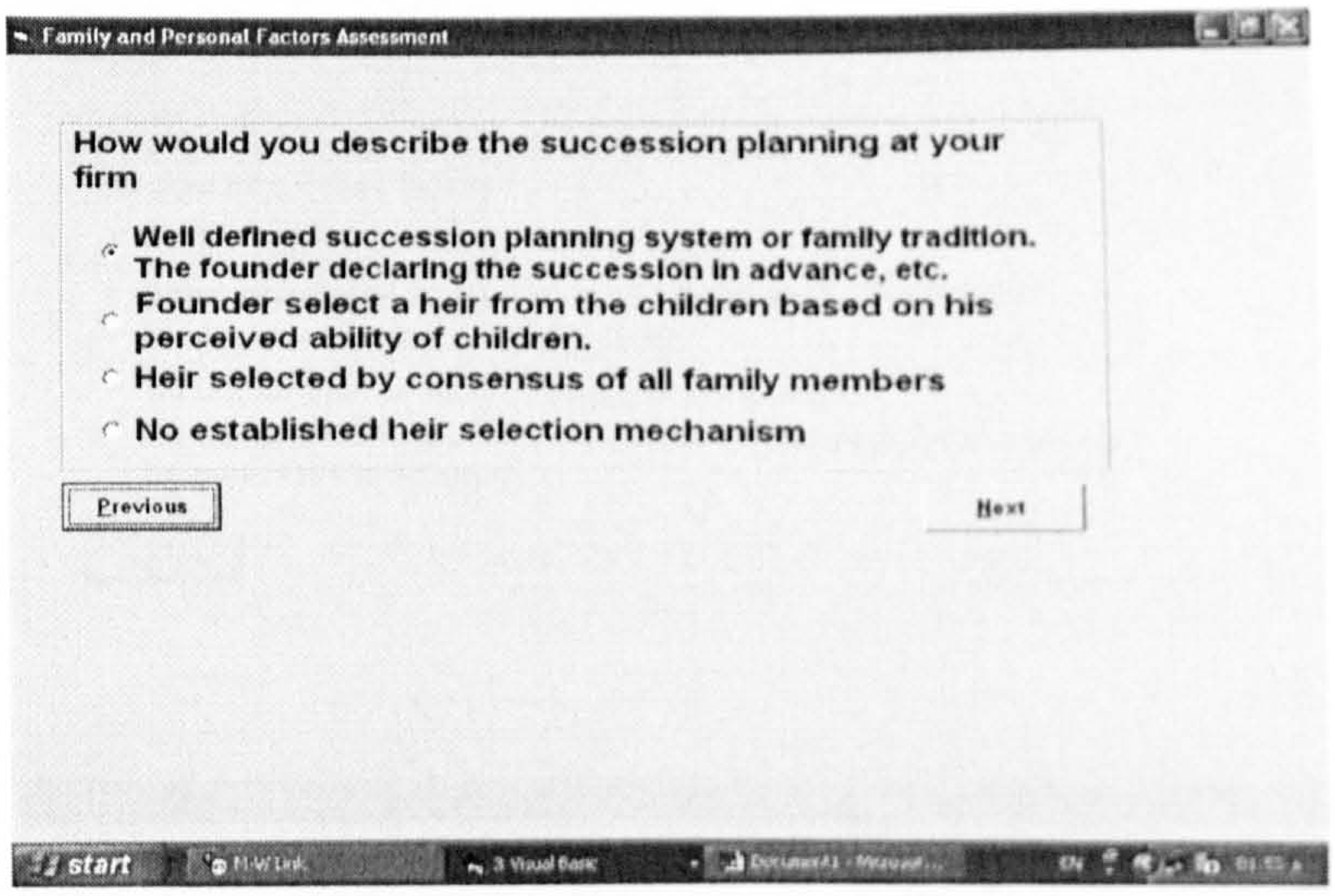

Family and Personal Factors Assessment
How many members of the family are actively participating in the family business
Sole proprietorship or single member
Many members of family have stake in business but only 2-4 work for it.
Many members but only 4-8 work for it
Many members but only 8-12 work for it
All family members work for the business
No family member works for the business
Previous
Next
Document1 - Microsoft Word
start

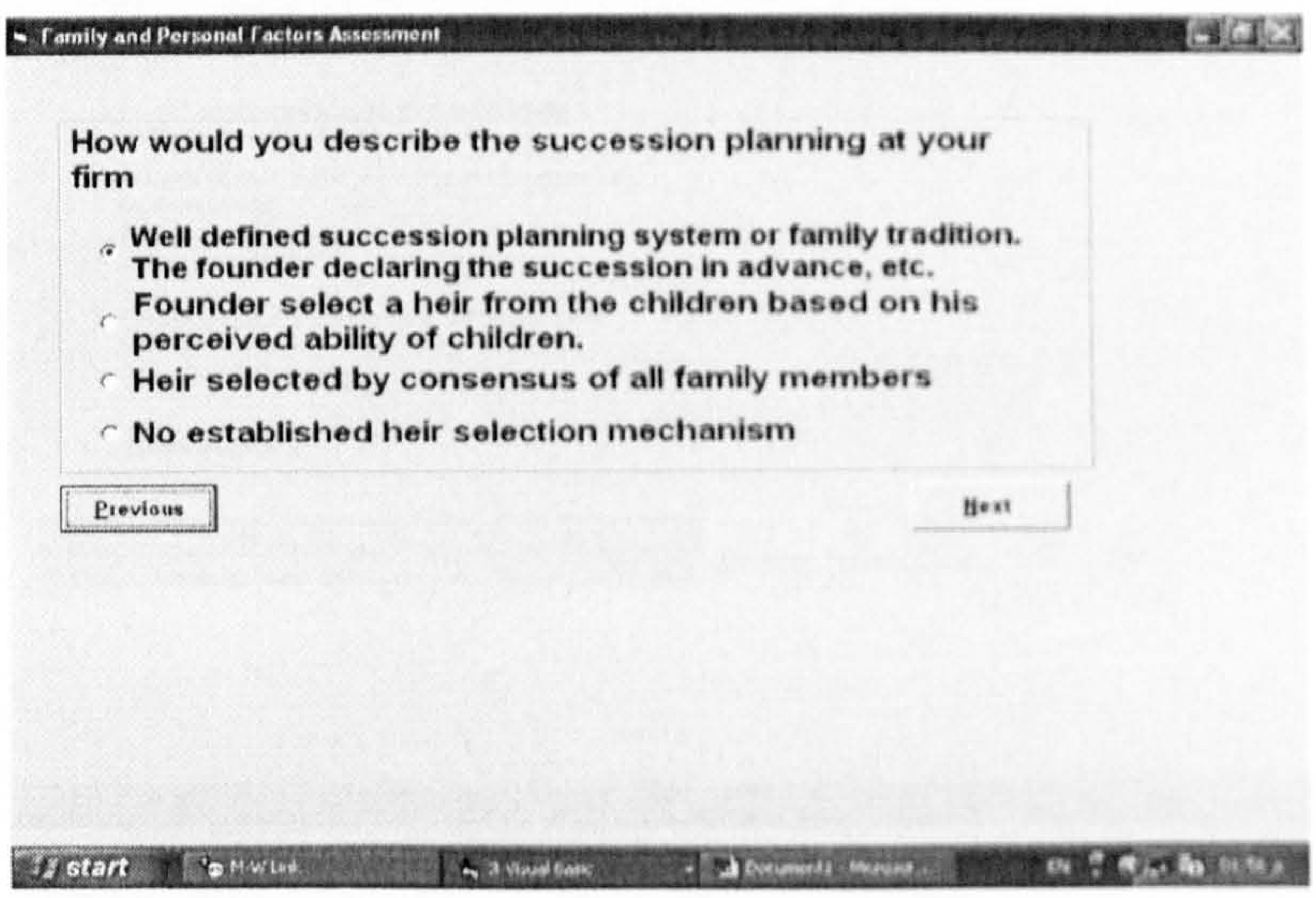

Family and Personal Factors Assessment
Which generation of the family is in control of the firm ?
1st generation
2nd generation
3rd generation
More than 3rd generation
Previous
Next
start


Family and Personal Factors Assessment
Which of the following do you perceive as core strengths of the family and rate it
1 2 3 4 5
Family unity
Family reputation and godwill
Family guiding rules or a family constitution
Family values
Business education and training of family members
Grooming of next generation to take control of family business
Previous
Next
start


Family and Personal Factors Assessment
How would you describe the contents of your family constitution:
No family constitution
family constitution containig succession planning rules, business entry and exit rules, confilict management and profit sharing rules
Family constitution with minimal representation of succession and conflict management
Family constitution with only profit sharing rules
Previous
Next
start


Family and Personal Factors Assessment
Please rate the following family inter-personal dynamics
1 2 3 4 5
Relation with head of the family or founder member
Relation with brothers ,other siblings/cousin consortium
Family member freedom to select a career of their choice, outside family business
Profit sharing satisfaction
Family leadership statisfaction
Previous
Next
start


Family and Personal Factors Assessment
How would you describe the succession planning at your firm
Well defined succession planning system or family tradition. The founder declaring the succession in advance, etc.
Founder select a heir from the children based on his perceived ability of children.
Heir selected by consensus of all family members
No established heir selection mechanism
Previous
Next
start


Family and Personal Factors Assessment
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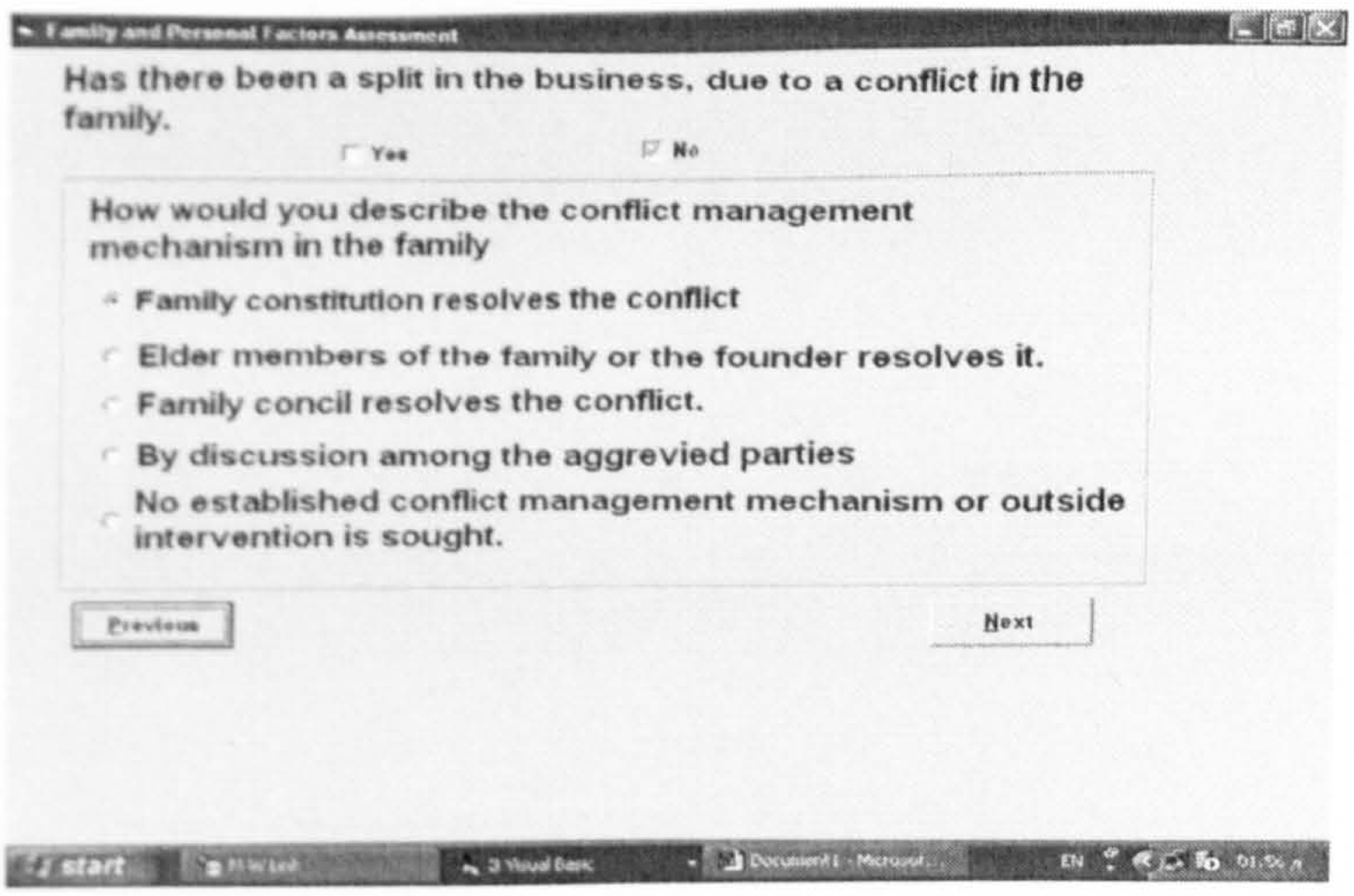
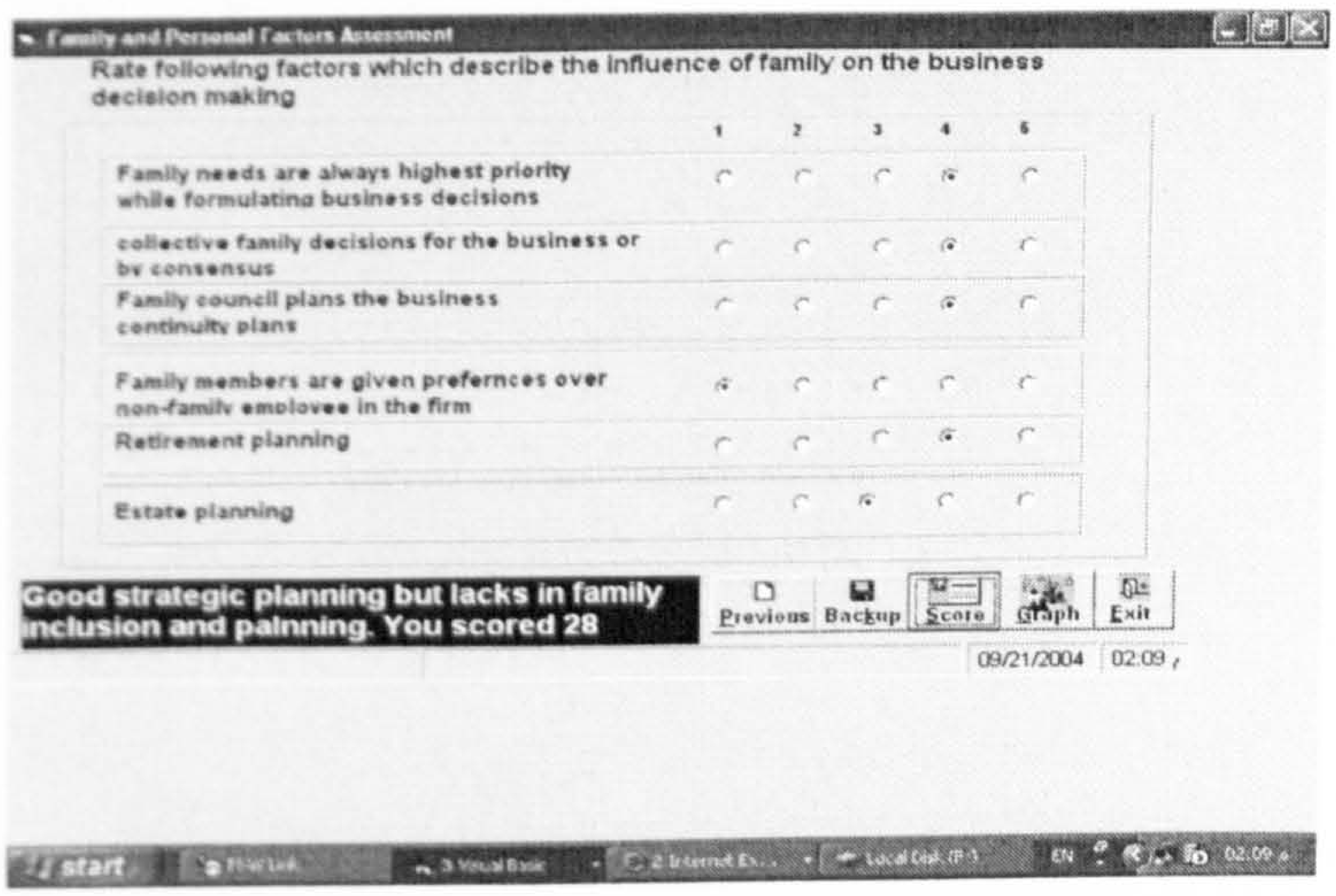
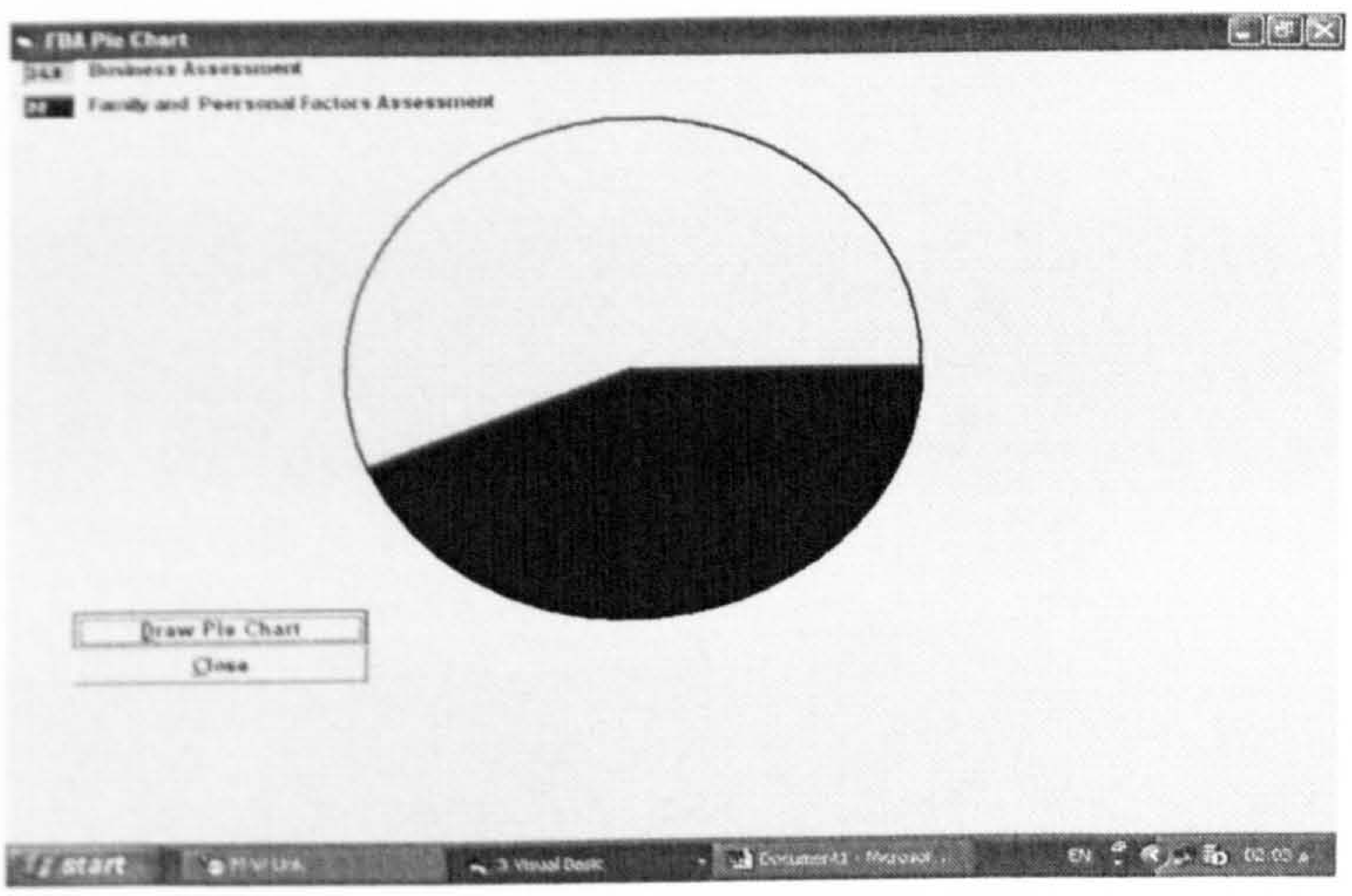
Heir selected by consensus of all family members
No established heir selection mechanism
Previous
Next
start


Family and Personal Factors Assessment
Has there been a split in the business, due to a conflict in the family.
Yes
No
How would you describe the conflict management mechanism in the family
Family constitution resolves the conflict
Elder members of the family or the founder resolves it.
Family concil resolves the conflict.
By discussion among the aggrevied parties
No established conflict management mechanism or outside intervention is sought.
Previous
Next
start


Family and Personal Factors Assessment
Rate following factors which describe the influence of family on the business decision making
1
2
3
4
5
Family needs are always highest priority while formulating business decisions
collective family decisions for the business or by consensus
Family council plans the business continuity plans
Family members are given prefernces over non-family employee in the firm
Retirement planning
Estate planning
Good strategic planning but lacks in family inclusion and palnning. You scored 28
Previous
Backup
Score
Graph
Exit
09/21/2004
02:09
start


FBA Pie Chart
Business Assessment
Family and Peersonal Factors Assessment
Draw Pie Chart
Close
start